



Annual and Sustainability Report

2023



About this report

This Annual and Sustainability Report is Íslandsbanki's integrated **core** report. We also publish other **more** reports designed to provide stakeholders with additional information on specific subjects such as risk management, financial and sustainability performance.

Together, these reports provide a comprehensive and detailed picture of the Bank's activities in 2023, along with the main priorities. Those reports are prepared in accordance with global standards such as the International Financial Reporting Standards (IFRS), the Nasdaq ESG Reporting Guide, the Greenhouse Gas Protocol, Partnership for Carbon Accounting Financials (PCAF), Task Force on Climate-Related Financial Disclosures (TCFD) as well as Icelandic law and European Regulation.

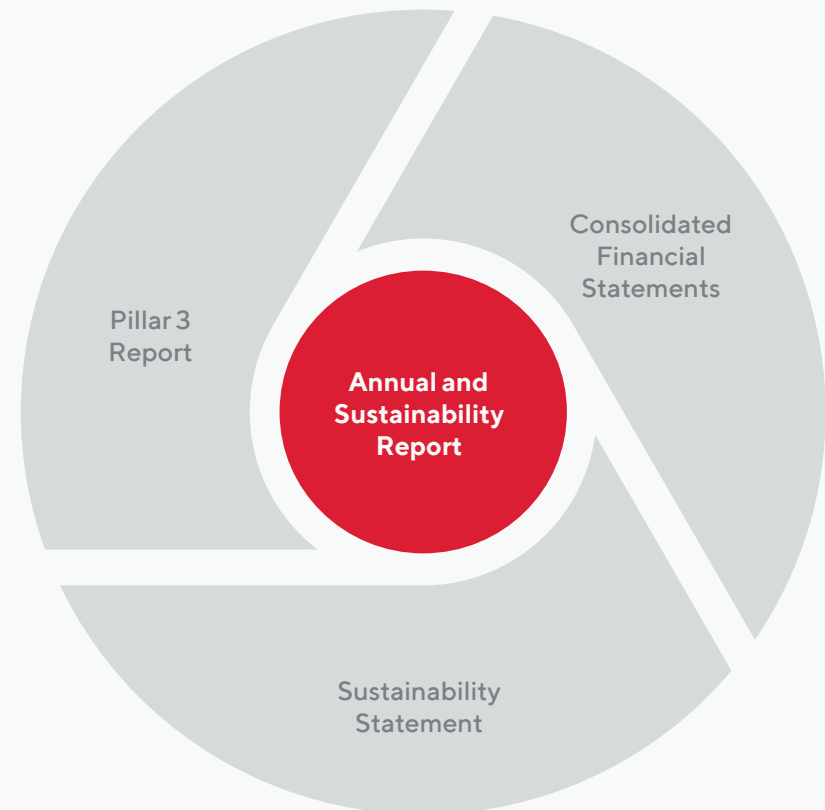


Table of contents



1 To our stakeholders	4	5 Strong foundations through professionalism	28
Chairman's statement		Digital and Data	
CEO's address		Risk Management	
		Compliance	
2 This is Íslandsbanki	11	6 Sustainable Íslandsbanki	36
2023 in numbers		Environmental	
Our people		Social	
Year 2023		Governance	
3 Strategy	16	7 Economic review	58
New strategy		8 Financials and funding	63
4 Creating value for the future with excellent service	19	9 Corporate and organisational structure	68
Personal Banking			
Business Banking			
Corporate and Investment Banking			
Iceland Funds			

This Annual and Sustainability Report was written in Icelandic and translated to English. In case of discrepancy, the Icelandic original will prevail. This Annual and Sustainability Report may include typos, discrepancies, or other errors. If such errors are found the Bank reserves the right to correct them. This Annual and Sustainability Report is published for information purposes only and should not be considered to include any investment advice, whether it be for the sale or purchase of securities.



To our stakeholders



Chairman's statement

It is safe to say that 2023 was at once an eventful and an educational year for Íslandsbanki. The year started well, with the implementation of a new strategy and strong progress in digital services, but that solid beginning was followed by shocks relating to the settlement with the Central Bank due to the sale of part of the Government's stake in the Bank. The Bank used the second half of the year to restabilise, both internally and vis-à-vis customers, and complete the reforms accompanying the settlement with the Central Bank. All of this will be of benefit in the future, of course, but it is also a necessary element in preparing the Bank for future opportunities.

We were not only faced with internal adversity in 2023, but also with natural disasters such as our people in Grindavík have unfortunately had to experience. The current conditions in the banking market in Iceland are also very different from what our international competitors operate in, as the capital requirements of Icelandic banks are among the highest seen in the world. It is clear that there are opportunities and a need for consolidation in the Icelandic market, and it will be interesting to see what the future holds in those matters. It is extremely important that the country and the nation, together with the regulators, form a strong vision of what the future ownership and landscape of the financial market should look like.

The economic environment was challenging when the economy began to readjust after a period of strong growth. In spite of fairly clear signs of tension in the labour market and in the economy more broadly, households and businesses

have – fortunately – been relatively careful. The financial position is strong overall, and debt levels are moderate in both historical and international terms.

In the main, the tourism industry has recovered from the pandemic-era shock and has retaken the lead among Iceland's foremost export sectors. The outlook is for record tourist arrival numbers in 2024. Furthermore, it has been gratifying to see growth in export sectors that are based mainly on human intelligence and on better use of Iceland's resources.

The Bank is very strong and has placed great emphasis on standing by our customers in a demanding economic environment. Its capital position is strong as well, and its credit ratings reflect a positive view of its underlying operations. Operations have been stable, and the return on capital has exceeded targets.

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It is important that knowledge and expertise be maintained within the Bank alongside new streams and concepts, and we are convinced that this year of readjustment will enable us to strengthen the foundations of our operations.

Linda Jónsdóttir
Chairman of the Board



Outlook for lower inflation and interest rates

Later this year, after inflation has subsided, it is assumed that the Central Bank will start lowering the policy interest rate. Households and businesses will doubtless welcome declining inflation and interest rates, as the outlook is for real wages to grow this year, even though nominal wages will rise more slowly than in the recent term. Real rates will probably remain high through 2024, however, which could dampen firms' investment appetite and prompt households to save rather than consuming more.

Fixed-interest-rate clauses set to expire

In an environment of high interest rates, it is natural that the composition of household loans should change. There has been a strong shift from non-indexed loans to indexed loans as households seek more manageable debt service burdens. The Bank closely monitors its customers' position and has attempted to meet their needs insofar as it can including by educating customers on ways to decrease monthly payment burden. The Bank has also provided informational material on how to lower debt service. In 2023, some ISK 15 billion in mortgage loans with temporary fixed-interest-rate clauses were subjected to interest rate reviews, and a share of them were refinanced with indexed loans. In 2024, another ISK 43 billion in mortgage loans are scheduled for similar reviews, followed by ISK 57 billion in 2025. If developments continue in the current pattern, the Bank's loan composition can be expected to shift increasingly to indexed loans, which could lead to increased growth in the Bank's indexation imbalance.

Development and reform

The year was marked by Íslandsbanki's efforts to shore up its foundations and culture, following the agreement with the Central Bank to settle the case involving violations

committed by Íslandsbanki in connection with its sale of a 22.5% Government-held stake in the Bank via auction on 22 March 2022. Íslandsbanki paid ISK 1.16m in fines and pledged to institute specific reforms centring on unconditional audio recordings, improved customer classification and better information disclosures to customers, clearer risk assessments and assessments of conflicts of interests, among other matters. In addition, strong emphasis was placed on strengthening governance practices that support a robust risk culture within the Bank, both now and in the future. Bank staff dedicated an enormous amount of time and effort during the reform process and benefited from the assistance of consultancy firm Oliver Wyman. There have also been major changes in staffing, both on the Board and within the management team. A new board was elected by shareholders at the July shareholders' meeting, with the result that four new members took seats on Íslandsbanki's Board of Directors. Furthermore, major changes have been made to the Bank's Executive Committee with the appointment of six new members from within the ranks of Íslandsbanki and from other companies in Iceland and abroad. It is important that knowledge and expertise be maintained within the Bank alongside new streams and concepts, and we are convinced that this year of readjustment will enable us to strengthen the foundations of our operations.

Excellent service is of pivotal importance

At the beginning of the year, the Bank developed a new strategy with the assistance of consultancy firm McKinsey. Íslandsbanki's **role is to act as a force for good**, and its vision is to **create value for the future by providing outstanding service**. Íslandsbanki has long placed strong emphasis on service, and this focus remains at centre-stage for customers and employees alike.

The Bank's role of providing outstanding service means that we are able to provide digital service in a simple manner, when customers need it. In tandem with this, personal service and advice is needed for major decisions, and we will continue to assist customers as they face such challenges. In addition, we must thoroughly know our customers, know their needs, and thereby discern how we can best work together for their benefit. Furthermore, we consider it very important to provide information to customers and foster their financial health. As with all goals, these objectives are not met in a single day, and the Bank focuses strongly on improving its efforts, one day at a time.

Sustainability remains one of the Bank's four strategic goals. It is safe to say that expectations made of companies in the area of sustainability have increased markedly in the recent term, not only because of the vastly expanded regulatory framework the topic entails, but also because of strong demands made by stakeholders such as employees, investors, and customers. During the year, major strides were taken towards continued integration of sustainability objectives into the Bank's operations, including work on the Bank's double materiality assessment, the assessment of sustainability risk in the Bank's loan portfolio, and the update of the sustainable financing framework, which was published early in 2024. All of this work aims at the same goal: to make the Bank better prepared to support informed decision-making and risk management, respond to more stringent demands concerning sustainability disclosures, and – not least – support customers on their own path towards greater sustainability. The Bank's greatest opportunity to be a genuine force for good lies in its ability to finance the transformation that needs to take place in the Icelandic community so that the country's ambitious climate and equal rights targets can be met.



Operations and the tasks ahead

On the whole, 2023 was a good year for Íslandsbanki's operations. The Bank's operating profit amounted to ISK 24.6 billion, and its return on capital exceeds our financial targets and analysts' projections. Income from core operations is still the main source of the Bank's revenue; asset quality is good and collateral is sound. Íslandsbanki stands on firm ground and is ready and willing to tackle new projects in partnership with our customers.

Digital distribution channels will continue to gain in popularity among our customers, and we are determined to remain at the forefront in expanding digital banking services and improving digital service offerings, so as to meet our customers' needs and help them to realise their goals and succeed in their endeavours.

Thanks

It has been a distinct honour to take a seat on the Íslandsbanki Board of Directors. The Bank employs an outstanding team dedicated to helping its customers to succeed, and it has a long history in bringing this about.

Birna Einarsdóttir, after 30 years with Íslandsbanki – the last 15 years as CEO – left the Bank last summer, and on behalf of the Board, I want to offer her our heartfelt thanks for her invaluable contribution throughout her tenure with the Bank, which focused on equal rights and sustainability as cornerstones of the Bank's culture. Her successor is Jón Guðni Ómarsson, who has led the Bank with a firm guiding hand and has steered it through a demanding period of rebuilding informed by his almost 25 years of employment with the Bank and its predecessors. We are optimistic about the new year and look forward to meeting the challenges ahead, together with our customers.

I would like to thank the Bank's employees for their contribution during a difficult year that was certainly not made easier by societal discourse. The reforms undertaken in the past year have shown incontrovertibly that Íslandsbanki's team of employees are committed to making improvements where they are needed and are determined to stand up stronger than before. With a strong background and our values as a guidepost, we will leave no stone unturned in harnessing the opportunities open to us.

CEO's address

2023 was a year of change and reform for Íslandsbanki. In terms of operations, it was an excellent year, with profits exceeding the Bank's targets. External conditions have been difficult in many respects, owing to high inflation and interest rates in Iceland. Íslandsbanki has worked with its customers to adapt to the situation, while holding fast to its goal of being a force for good in the community.

Major reforms undertaken during the year

The Bank underwent substantial changes at the end of June, when Birna Einarsdóttir stepped aside after 15 years as CEO. Birna was a natural leader who steered Íslandsbanki's activities deftly, and she was very popular among the Bank's employees. She led us through the unusually challenging time following the 2008 financial crisis and showed herself to be a forward-thinking leader in the Icelandic business community.

The Bank's activities are at once complex and complicated. Broad-based reforms were put in place because of flaws in the execution of the sale of part of the Government's holding in the Bank in 2022. With a coordinated effort by Bank staff, this reform work was smooth and successful. Chief among the remedial measures undertaken was to make the appropriate amendments to rules and procedures, including those on employee trading and handling of audio recordings. Another key task was to ensure the existence of a strong risk culture throughout the Bank. Furthermore, mandatory training courses were set up for employees, and questions about the Bank's risk culture were added to the semiannual workplace survey.

Another major project undertaken was to respond to the Central Bank of Iceland's comments and recommendations concerning Íslandsbanki's measures to combat money laundering and terrorist financing. The Central Bank's final report, received by Íslandsbanki in September 2023, contained various recommendations and comments on the Bank's responses to the topics highlighted in the Central Bank's inspection. The Bank began working immediately on remedying the flaws identified by the Central Bank.

Development of digital services continues apace

During the year, we placed particular emphasis on coordination and use of digital data with the establishment of a new department that combines the expertise of our best technology, product development, and data specialists. This approach is in line with the Bank's policy of offering service based on digital solutions and data harnessing. The benefits were quick to emerge with the adoption of new digital solutions for individuals and companies. In this vein, we have continued to develop our highly popular chatbot, Fróði, who uses artificial intelligence to improve the quality of service and responses to customers.

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During the year, we placed particular emphasis on coordination and use of digital data with the establishment of a new department that combines the expertise of our best technology, product development, and data specialists.

Jón Guðni Ómarsson
Chief Executive Officer



Furthermore, important advances have taken place in digital loan refinancing, automated lending, and automated credit assessments. The Bank has also stressed the implementation of digital business solutions, enabling companies to establish accounts with us electronically and conduct securities transactions through digital channels. The Bank is currently developing a new online bank for businesses, with expanded and improved capabilities.

Digital banking services also bring increased opportunity for even more comprehensive customer service. Choosing appropriate banking services can be a complex process, but our new digital interface simplifies that process for our customers. Good service centres on knowing customers' needs, informing them of the options that suit them at any given time, and being there to help customers at major turning points. Being able to start a credit assessment and receive a determination of debt service capacity within minutes can be vital in making a decision about whether or not to make an offer for a home.

The new digital-only savings account we introduced during the year, the CPI-indexed Ávöxtun account, was well received by customers. The CPI-indexed Ávöxtun account has a commitment period of only 90 days instead of the three years required for older types of savings accounts. It is well suited to individuals seeking higher returns on savings, but with a shorter commitment period. More than 20,000 Ávöxtun accounts have been opened to date.

Íslandsbanki supports innovation

Last autumn, the Íslandsbanki Entrepreneurship Fund awarded ISK 50 million in grants to 14 projects. Applications for grants from the Fund have increased steadily in number, from 90 in 2022 to 132 in 2023, showing without doubt how

strongly Iceland's innovation environment is growing. Since its inception, the Fund has awarded a total of ISK 215 million in grants to a wide range of projects.

It has been enlightening to watch the projects evolve; for example, the high-tech growth company Payday was recently acquired by Norwegian software provider Visma. Íslandsbanki was involved in Payday and acquired a stake in the company three years ago. Íslandsbanki's role – and goal – is to be a force for good, and we think this goal has truly been realised in the Bank's support for and involvement with Payday's growth.

Fintech and automation are highly important to us in our quest to simplify processes and make it easier for customers to carry out their banking business. As an example of this, some 89% of the Bank's key products were sold via digital channels, and 88% of customers use contactless payment solutions to pay for goods and services.

Digital developments and e-commerce require increased vigilance on the part of the Bank and its customers. Increased e-commerce has been accompanied by more frequent online fraud. Íslandsbanki has long offered solutions such as payment card freezes and credit limit adjustment, but during the year the Bank introduced changes in its app, with an eye to enhancing security. An extra layer of authentication is now required for actions involving information such as payment card numbers and expiry dates. Íslandsbanki has also set up a robust fraud monitoring team with the aim of intervening in potential fraud and resolving incidents that arise. The fraud monitoring team works closely with the Bank's emergency service staff, ensuring that customers can receive reliable service 24/7. The Bank has also recently introduced a very well-received authentication process based on confirmation of online payments via electronic identification (e-ID).

Optimising housing

Íslandsbanki's Akranes branch moved to a new location, just a stone's throw from its predecessor. The new branch is 200 square metres in size, down from the previous 320 square metres, and aligns well with the Bank's goal of streamlining its operations. Early in 2024, the Bank will also move its Húsavík branch to a prime location that meets the need for compact, efficient space that guarantees attractive and well-equipped facilities for customers and employees alike.

Iceland Funds offer a range of favourable savings options

For over 30 years, Iceland Funds has offered Icelandic depositors a wide selection of savings options ranging from short-term funds for liquid assets to equity funds suited to long-term savings and investment. About 12,000 customers choose to invest their savings in products offered by Iceland Funds.

Iceland Funds established a new fund during the year – IS Haf fjárfestingar – in cooperation with primary investor UR Seafood. An institutional investment fund valued at ISK 10 billion, IS Haf invests in ocean-related activities ranging from procurement of raw materials and processing to sea-related tech solutions, infrastructure, and biotechnology. The fund invested in two ocean-related companies during the year and is examining additional investment options.

Íslandsbanki and asset management firm Vanguard celebrated 25 years of cooperation during the year. Vanguard is the largest fund management company in the US, and Íslandsbanki was its first non-US partner. To mark the occasion, Íslandsbanki Asset Management held a meeting at which Vanguard representatives gave interesting talks on the company's investment strategy, as well as debunking



widely held myths about investment. Vanguard has invested more actively in Iceland since 2022, when international index provider FTSE Russell promoted the country's equity market to secondary emerging market status. Furthermore, Iceland's largest pension funds have invested in Vanguard funds, which now represent some of the pension funds' largest foreign investments. We look forward to the next 25 years of collaboration with Vanguard.

Market volatility

The Icelandic equity market hit a spate of heavy weather during the long, steep monetary tightening phase. Persistent inflation and a range of uncertainties made an imprint on the market. The bond market was sluggish early in the year but then rallied in the second half. It now appears that the monetary tightening phase has peaked or will do so soon. It is hoped that the securities market will rebound in 2024.

Íslandsbanki's FX Sales staff had yet another excellent year in 2023, and it is probably safe to call it a record year, as Íslandsbanki is the leader in the market. Turnover in FX Sales has grown apace, not least because of the surge in tourism and increased use of hedging instruments.

It was highly gratifying to see the success of the initial public offering and listing of Ísfélag hf. on Nasdaq Iceland, in which the Bank participated as one of the arrangers. The offering concluded in early December, and demand for shares exceeded supply by nearly a factor of four.

The Bank stands on solid ground

Global rating agencies S&P and Moody's recognised Íslandsbanki's strong position during the year, and it is gratifying to see the improvements in the Bank's credit ratings. It was a major milestone when Moody's issued the Bank a rating of A3 with a stable outlook. The rating bears witness to Íslandsbanki's strong capital position and sound, stable returns.

In 2023, Íslandsbanki generated a profit of ISK 24.6 billion, and its return on equity amounted to 11.3%, exceeding the Bank's internal targets. Income growth year-on-year measured 12.0%. The expense ratio for the year as a whole was 41.6%, and one of the Bank's financial targets is to maintain a ratio below 45%. Lending growth declined year-on-year in 2023 but grew by 3.0% on an annualised basis, clearly a result of higher interest rates. Customer deposits grew by ISK 60.8 billion, or 7.7%.

The Bank's liquidity position is strong, and well above regulatory requirements. Its capital ratios remain high and are also well above requirements, reflecting Bank management's determination to optimise the balance sheet.

The Icelandic nation was beset by significant challenges in late 2023, with the onset of seismic activity in the Grindavík area. Icelanders have expressed their support for Grindavík residents, who have been forced to live with major uncertainty about their homes and community. Íslandsbanki has made every effort to support its customers in the affected region, both by freezing loans and by cancelling interest and indexation payments. The Bank will continue to monitor the situation closely and will communicate actively with its customers.

Thanks to customers and staff members

I would like to thank Íslandsbanki employees for their outstanding work and professional commitment during the challenges that faced us in 2023. It was truly inspiring to see our staff members join together and support one another last summer, showing their determination to reclaim customers' trust and confidence.

When all is said and done, we can be very proud of the Bank's performance during the year. Íslandsbanki's staff members always make a concerted effort to provide the Bank's customers with exemplary service, guided by the Bank's core values: passion, collaboration, and professionalism.

All of us at Íslandsbanki want to thank our customers for their business during the year and to say that we look forward to continuing our collaboration. The Bank is dedicated to standing by its customers when difficulties arise, and as we discovered last year, that commitment goes both ways. We are most grateful to our customers for their support.

Exciting times lie ahead for the Icelandic economy. Íslandsbanki stands strong, has a clear strategy, and is ready and willing, as before, to be a force for good in the community.



This is Íslandsbanki





This is Íslandsbanki

Moving Iceland forward by
empowering our customers to succeed



Collaboration



Professionalism



Passion



The Bank



725

number
of FTEs at
Íslandsbanki
at year-end

12

branches



ergo



Listed on Nasdaq
Iceland as of 2021



Ratings and certifications

S&P Global
Ratings

BBB/A-2
Positive outlook

Moody's

A3
Stable outlook



**Create value for the future
with excellent service**

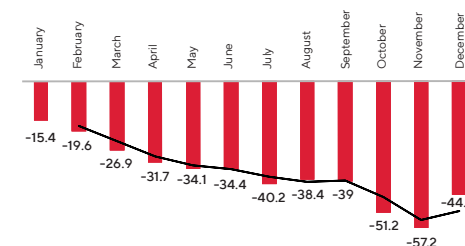


Key Figures 2023

ROE	11.3%
Cost-to-income ratio	41.6%
CET1 ratio	21.4%
Total capital ratio	25.3%
LCR	195%
Group, all currencies	
NSFR	124%
Group, all currencies	
Leverage ratio	13.4%
Total assets	ISK 1,583 bn



NPS development



Sustainability



The Bank has **updated**
its **Sustainable funding**
framework



93% of the Bank's credit risk
exposure assess with regards
to **ESG risk**



77% of suppliers have signed
an updated **suppliers' code of**
conduct



Digital milestones



The new **digital car loan**
journey improves the customer
loan process experience



Íslandsbanki's **chatbot, Fróði**,
can now **speak to customers**
in beta version of the
Íslandsbanki app



Additional **step-up security**
has been introduced to the app
and online bank in **response to**
increasing **fraud risk**

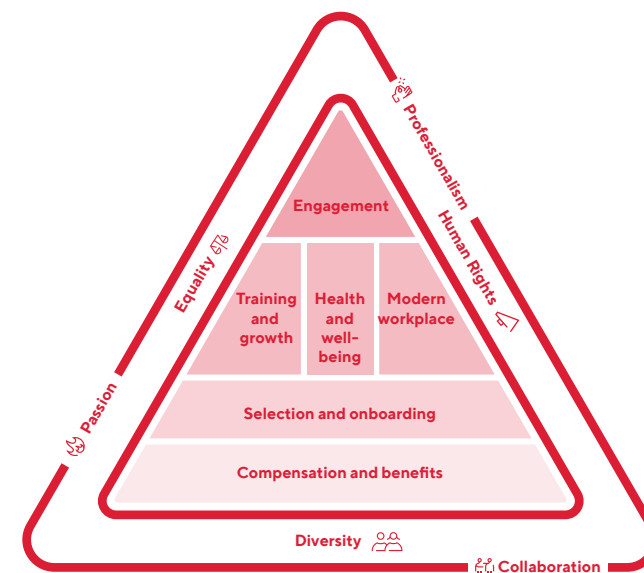
The waves outlast the storm

Íslandsbanki focuses strongly on creating a constructive and healthy work environment with passion, professionalism, and collaboration as guideposts. Because its human resources are its biggest resource, the Bank places strong emphasis on fostering employees' growth and development and contributing to their health and well-being.

The best workplace for growth

Íslandsbanki is committed to offering an outstanding work environment that enables employees to grow and flourish in their jobs. The Bank seeks out ambitious people with wide-ranging backgrounds and aims to maintain a team of qualified, interested, satisfied, and well-trained employees who show initiative and provide outstanding service.

In order to realise this vision, we emphasise a professional hiring and employee onboarding process, strong leaders, health and well-being, clear job development possibilities, strong education and training and a modern environment characterised by psychological security. This fosters a dedicated workforce.



“ Challenges and opportunities

We have come nose-to-nose with a host of new challenges in the past few years, including a global pandemic, high inflation, high interest rates, and demanding conditions in markets worldwide. 2023 was no exception.

We weathered various changes and faced strong headwinds during the year. We saw experienced leaders depart and welcomed new ones. We looked within, improved internal processes and regulatory provisions, updated risk assessments, and strengthened ourselves in numerous other areas. We also

achieved outstanding results on many fronts. Team spirit, job satisfaction, and employee engagement have remained high throughout the turbulence, and we are proud of this. We did not back down in the face of challenges.

Instead, we reminded ourselves that challenges also bring opportunities, and we have emerged determined, as ever, to make Íslandsbanki an even more attractive workplace. Together we look ahead with optimistic eyes – stronger than before and filled with passion.



Hafsteinn Bragason
Head of Human Resources

Education and growth

The Bank places great importance on job development and offers employees wide-ranging opportunities to grow and thrive in their work. Job development can take many forms, and it is the responsibility of each employee to find the path that suits them. Examples of such paths include seeking out education and training, learning about the activities of other Bank divisions, requesting additional responsibility, and taking on new projects. Employees also have the option of receiving coaching and mentoring, with the aim of making the next steps in their career more targeted and possibly opening doors to new opportunities in the future.

Íslandsbanki also maintains a strong professional education and training programme featuring a range of courses and educational presentations for employees. Needs analyses are carried out in cooperation with employees and managers. The Bank offers a wide range of good courses and encourages employees to acquire new knowledge and skills in order to maximise their performance and job satisfaction.

A performance-driven culture and effective feedback

A performance-driven culture is of vital importance in creating a competitive advantage, and in all of our tasks and projects, we aim to make maximum use of the options and measures available. The tools, equipment, and methods we use are not the most important factor, however. The key is for managers and employees to set clear goals, have the same expectations about performance, and have a shared understanding of the work, tasks, and responsibilities involved. With this shared understanding, it is easy for managers to provide frequent, targeted feedback that supports employees, encourages them, and helps them all to flourish in their work. In this way, managers can remove barriers so that employees can spend each day doing what they do best: providing customers with outstanding service.

A progressive and professional work environment

The work environment at Íslandsbanki is modern, flexible, and progressive. Our facilities are diverse, and employees have at their disposal a variety of workstations designed to facilitate a range of projects and needs. There are open spaces, quiet spaces, various meeting and conference rooms, collaborative

work facilities, creative space, and recreational space. Furthermore, employees are free to work remotely where remote work can be accommodated. Remote work is optional, and those who choose to work remotely do so in consultation with their manager, based on the arrangement that suits best at the time in question. Íslandsbanki's goal is to offer the best possible options, support, and facilities for its employees, thereby unleashing their creativity and fostering flexibility and cooperation.

The Bank continues to prioritise human rights, equal rights and diversity, robust social activity, constructive communications, health and well-being, and support for eco-friendly travel by employees. In doing this, we create an environment that enables our employees to succeed in their work.

Team spirit and well-being

We make a concentrated effort to create an environment that fosters employees' health, satisfaction, and well-being, both at work and in their private lives. We strongly emphasise effective and constructive communications, teamwork, and a healthy workplace culture characterised by trust and respect. We want our employees to be able to express their thoughts, offer new ideas, ask questions, and make mistakes. This increases the likelihood that employees will have a sense of psychological security, trust, and well-being in their jobs.

Employees are encouraged to work towards their own well-being, and the Bank has ensured access to services and options that enable them to improve their physical and emotional health. These include medical services, measurement of health metrics, influenza shots, massage during working hours, gym membership subsidies, transportation subsidies, and various health-related educational materials. Furthermore, during the year the Bank renewed its cooperation agreement with workplace health consultancy firm Auðnast, ensuring that all employees have access to psychological counselling.

Employee well-being, positive communications, and mutual respect and trust contribute to a strong team spirit. The Bank's employees work together as a unified group and support one another. The Bank is committed to a strong performance and takes pride in efforts that are conducive to success. It has a robust social activity programme, and its employee association holds a variety of events. Among other things, the Bank supports group and club activities for employees, where everyone plays an important role in creating the best possible team.





Year 2023

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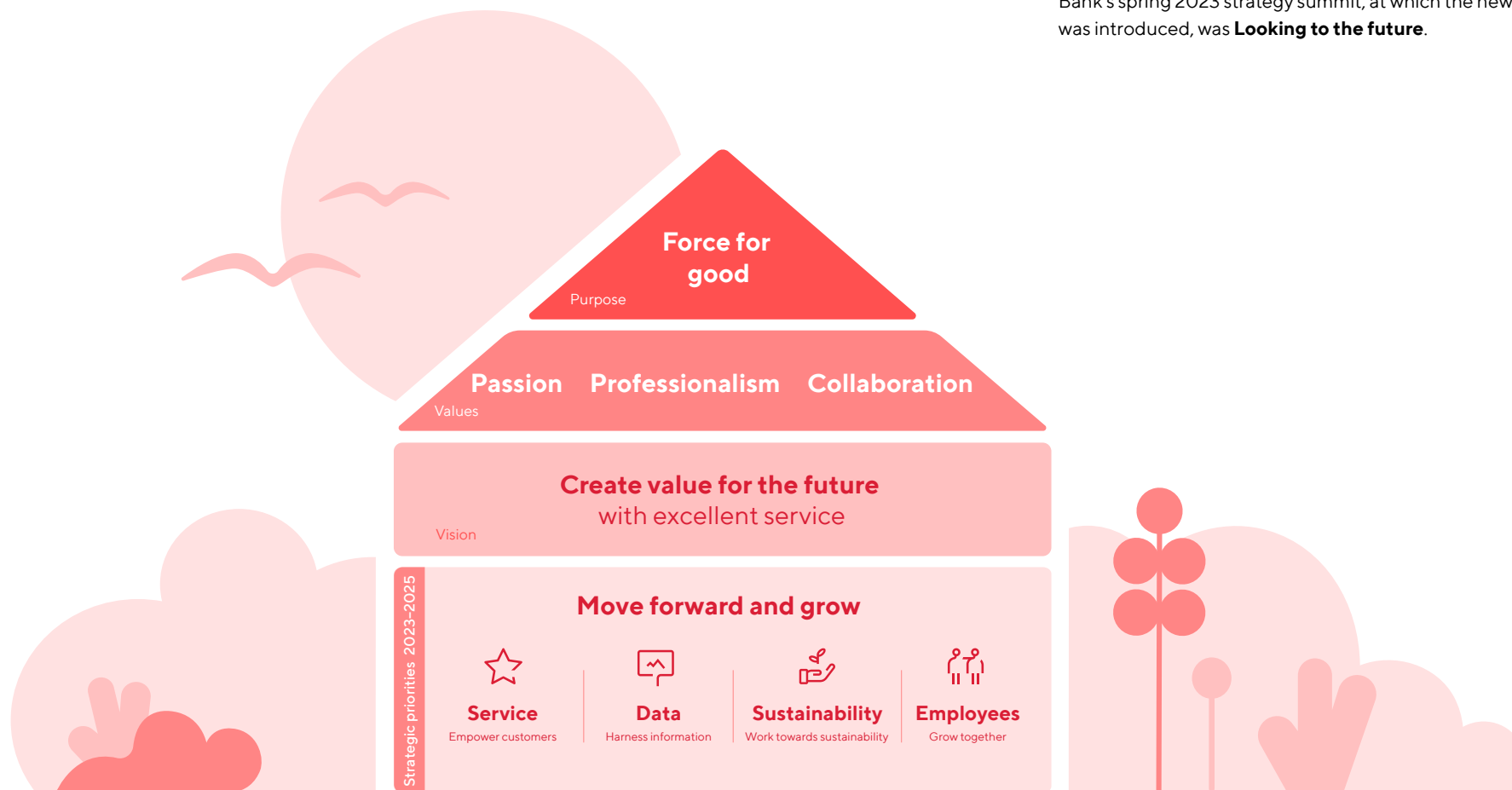
Íslandsbanki's strategy



Being a force for good

According to Íslandsbanki's policy, the Bank's objective is to act as a force for good. Its vision is to create value for the future by providing outstanding service. The Bank has developed four strategic themes for 2023–2025: **service, data, sustainability, and employees**. The main theme for the period is **move forward and grow**, which indicates, among other things, that the Bank is open to external growth.

Since its establishment, Íslandsbanki has strongly prioritised policy and strategy formulation, and its employees have participated actively in this process, with annual strategy summits playing a key role. The operating environment in the banking industry is changing rapidly, and it is therefore important to review the Bank's strategy regularly so as to ensure its long-term competitiveness. The theme of the Bank's spring 2023 strategy summit, at which the new policy was introduced, was **Looking to the future**.



Strategic themes 2023-2025

The Bank's strategic themes focus on creating value for the future by providing outstanding service. Employees worked hard and effectively on all of these fronts during the year, thereby better preparing the Bank to meet customers' wide-ranging needs.



Service

Financial services have changed rapidly in recent years, but the emphasis on personal, data-driven service is at the heart of Íslandsbanki's service policy. Ready access to data and technology is the key to our being able to offer secure but flexible financial solutions tailored to each customer's needs. The Bank stresses continuous development and improvement of its service, together with financial education, with the aim of ensuring that customers have a good overview of their finances and financial health.



Data

During the year, the Bank continued to focus on further evolution towards personal, guidance-centred service based on data analysis. Ever-increasing awareness of the importance of data quality and security can be seen throughout the Bank: in the revamped internal organisation of matters concerning data, the employment of data quality officers, and the adoption of a data quality monitoring process. The Bank is working systematically towards increased automation of marketing and custom-designed services and communications with customers, and the benefits have already begun to show in an improved service experience and stronger sales.



Sustainability

Íslandsbanki's goal is to be a leader in sustainable development. The Bank takes ESG criteria into account in its risk management and actively explores sustainability-related business opportunities. Among the goals achieved during the year were growth in sustainable lending, continued work on the ESG risk assessment of the loan portfolio, and fruitful dialogue with customers and suppliers. Furthermore, the Bank carried out for the first time a simplified version of a twofold materiality analysis, which is an element in preparing for the implementation of the expanded regulatory provisions on sustainability disclosures set to take effect in 2024.



Employees

During the year, Íslandsbanki's staff was defined as one of the Bank's four strategic themes for the next three years, reflecting our conviction that human resources are our biggest resource and our commitment to ensuring an environment that fosters a dedicated and satisfied staff. The core of Íslandsbanki's human resources policy is to ensure that the Bank is a place where employees have the opportunity to grow and develop in their jobs. In order to fulfil this vision, the Bank focused on a number of human resources-related issues, including health, education and training, and equality and diversity, all of which contribute to a modern work environment where employees feel secure.

Business Unit

Digital and Data

Sustainability

Our people



Creating value for the future with excellent service



Personal Banking

Personal Banking focuses on digital and personalised service aimed at meeting customers' needs at all times.

Íslandsbanki's Personal Banking division provides services to individuals who do business with the Bank via its branch network, advisory centre, and digital solutions. The Bank has around 146,000 active customers and is the market leader in credit cards for individuals. Most of the Bank's customers choose to conduct their day-to-day banking via the Íslandsbanki app. Active app users currently total an all-time high of 114,000. Íslandsbanki's goal is to be at the forefront in development and implementation of solutions for its customers. This year, for instance, the Bank authorised

eligible customers to put in place an interest payment ceiling for their non-indexed mortgage loans in order to cap their interest payments. If the ceiling is utilised, the excess interest is applied to the loan principal. Íslandsbanki customers are quicker than others to adopt new solutions, and the Bank's cashback loyalty programme, Friða, which offers customers rebates for shopping with selected merchants, is now one of the biggest loyalty programmes in the country.

Market share¹

31% overall	28% deposits	21% mortgages	38% credit cards
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89% of key products are sold via **digital channels**.



Refunds to Friða users increased by **55%** and were around **200 million ISK** in 2023.



The Bank launched an inflation-indexed account, **Ávöxtun**, in 2023. The new account has a minimum **commitment period of 90 days** instead of the previously required three years.

¹For individual banking, the based on the number of customers with active deposits as percentage of people with domicile in Iceland. For deposits, mortgages, and credit cards it's based on Central Bank data.

“ We are here for our customers

Financial services for individuals have changed radically in recent years. Financial health, financial education, and customers' oversight of their own finances provide the foundation for successful growth.

With digital solutions and automation, customers are managing their finances to an increasing degree outside conventional banking hours. Our chatbot, Fróði, is constantly developing, and among other things, customers can ask Fróði for their bank account balances and the IBAN numbers of their own

accounts. Fróði also received an international award for being the most liked chatbot, with an average of 85% satisfied with the answers received.

Digital advancements have led to better data oversight, which will strengthen the Bank's service to its customers and improve their service experience. Íslandsbanki's aim is to be a force for good, and it is therefore vital that the Bank be there for its customers at important turning points in their lives.

Ólöf Jónsdóttir
Managing Director,
Personal Banking





Organisational structure

Finance, Operations, and Balance Sheet Management oversees Personal Banking operations, from the planning stage to oversight of the division's deposits and lending. The Bank's price list was shortened and simplified during the year, and currently underway is a sustainability-oriented project focused on making the price list more transparent and more accessible to customers. The refinancing process has been streamlined in order to address the need for refinancing of fixed-rate non-indexed mortgage loans.

Front-Line Services offers customers personal advice in the Bank's branches nationwide, as well as providing service by telephone, written communication, and online chat. Customers can make an appointment for advisory services when it suits them, but they can also use digital channels to open an account with the Bank, request a credit assessment, or apply for a loan. Our chatbot, Fróði, has the capability to respond to digital authentication and carry out financial transactions.

Issuance Solutions offers a broad range of payment cards and efficient payment solutions such as Apple Pay and Google Pay. The unit oversees travel-related and payment card-related benefits such as Friða, the Bank's cashback loyalty programme, which offers rebates for purchases from selected merchants. Íslandsbanki customers can access services simply and directly through the Bank's digital channels.

Service Experience and Digital Development is a unit that focuses on customers' experiences with the Bank's distribution channels, with emphasis on personalised service and initiative. The unit's objective is to create data-driven value for the Bank's customers. It is responsible for developing new digital solutions for the Bank's customers, as well as seeking opportunities for innovation, and is a leader in collaboration on fintech solutions. The unit develops distribution channels and collaborates with Digital Development and Data on the operation of day-to-day infrastructure, as well as providing information and advisory services to employees in connection with digital solutions.



Customer onboarding has never been this easy

Digital banking services bring with them increased opportunity for even more comprehensive customer service. Selecting appropriate banking services can often prove complicated, but with a new digital interface that resembles that of a high-quality online merchant, all doors are open.

Good service centres on knowing customers' needs and informing them of the options that are appropriate at any given time. A key to success is to be there for customers at important turning points in their lives. By adhering to these principles, Íslandsbanki delivers on its commitment to be a force for good. Being able to begin a credit assessment and

receive a determination of debt service capacity within minutes can be vital in making a decision about whether to make an offer for a home or not.

Digital authentication is another example of easier customer access to the Bank's services, and the Bank's digital-only Ávöxtun savings option now boasts over 20,000 accounts, the vast majority of them owned by individuals.

Most customers (around 88%) choose to buy goods and services with **contactless payments**, using solutions the Bank has introduced, such as Apple Pay, Google Pay, Garmin Pay, and Fitbit Pay.



On the watch

Increased e-commerce has led to a rise in cyberfraud. The types of fraud committed are constantly changing, and it is therefore vital that the Bank and others be highly vigilant.

Íslandsbanki has long offered solutions such as **freezing payment cards and setting authorised limits**, both of which customers can access via the Bank's digital distribution channels. Recently introduced changes to the Bank's app contribute to greater security. An extra layer of authentication is now required for actions involving information such as payment card numbers and expiry dates.

A robust fraud monitoring team has been established with the aim of intervening in potential fraud and resolving incidents that arise. The **fraud monitoring team** works closely with the **Bank's emergency service staff**, ensuring that customers can receive reliable service 24/7.

The Bank has also recently introduced an authentication process based on **confirmation of online payments via electronic identification (e-ID)**. Electronic ID is an identification tool that most people are familiar with and the new process has been very well received.

Business Banking

Business Banking provides small and medium-sized enterprises (SME) with comprehensive financial services. Ergo, the Bank's asset financing service, is also part of Business Banking.

Business Banking serves a growing group of SMEs in Iceland. Our customers stand behind robust value creation in all sectors of the economy and play an important role in ensuring economic and social stability.

The division's highly experienced employees provide personalised service in customers' local community through corporate banking centres and branches, but customers also make effective use of the Bank's readily accessible digital solutions.

Business Banking is staffed with highly specialised employees with years of experience. We have built up strong business relationships with thousands of Icelandic companies, and we place emphasis on being there for our customers. The division provides outstanding personal and digital service and advice, with increased emphasis on data utilisation. We take the initiative and make a concerted effort to be a force for good in the community. In service surveys, we have repeatedly come out on top among SMEs, ranking ahead of competitors in terms of market share and customer satisfaction.

Market share¹

39%
overall

43%
greater Reykjavík area

30%
countryside



We serve **over 50% of Iceland's outstanding companies**.



New loans totalled **ISK 122 billion during the year**, and loan book growth measured **12%**.



86% of Business Banking's loan portfolio has undergone an **ESG risk assessment**.



The proportion of **green car loans** at Ergo is **44%**.

¹Average market share from Gallup's corporate surveys in 2023.

“ Yet another strong performance

2023 was characterised by well balanced growth in lending and deposits in the Business Banking division, with performance exceeding expectations and developing in line with estimated nominal GDP growth for the year. Growth in new lending was well distributed across sectors, branches, and corporate banking centres. Ergo had a fantastic year, logging loan book growth of nearly 21%. New loans exceeded ISK 50 billion for the first time.

High interest rates and persistent inflation made their mark on companies' operating environment, and if forecasts of interest rate cuts do not materialise in the coming term, the situation can be expected to test households' and businesses' resilience.

As yet, however, companies are showing no obvious signs of unfavourable developments such as increased arrears.

As in the past, system-related matters, development of digital channels, and product development were prominent activities during the year, not least the development of a new online bank for businesses, which will be rolled out during the year. We remain proud of our leading market share in the market for small and medium-sized businesses (SME), as our share in the capital region has not previously been higher. Business Banking's biggest project and greatest challenge for the future is to provide this large group of companies from all over Iceland with outstanding service, both in person and via digital channels.

Una Steinsdóttir
Managing Director,
Business Banking





Organisational structure

Corporate banking centres and branches

Business Banking operates corporate banking centres and branches in several locations in Iceland. The corporate banking centres are located in the Bank's headquarters in Nordurturn and in Akureyri, the former serving customers in the capital area and the latter serving customers in North and East Iceland. Business Banking offers self-service solutions and personalised advisory services, which results in readier access and better service to our customers. At the Bank's Nordurturn branch, advisors provide general services to companies in greater Reykjavik, as well as handling telephone reception, online chat, and web services for all of Iceland. Also operating there is a centralised support unit for Business Banking, which focuses on due diligence and anti-money laundering defences.

Digital solutions

Our customers can carry out their main banking activities through a wide range of distribution channels: the Íslandsbanki app, online bank, online chat, and the Bank's website. We are committed to providing service to our customers and meeting their needs – whenever and wherever they require it.

Ergo

Ergo, as a part of Business Banking, specialises in financing of machinery and equipment for businesses, as well as motor vehicles and travel equipment for individuals. Ergo has been a leader in the asset financing market for nearly 40 years, distinguishing itself with its rapid top-quality service.

Ergo



Businesses' digital journey

Ready access to data and technology is the key to personal, data-driven service that guarantees both security and flexibility, thereby leading to better service.

One of Business Banking's biggest service projects in recent years and a key element in digital customer service is the **development of a new online bank** that will be launched this year. Use of the Íslandsbanki app have increased by 45% between years, with a growing range of solutions and options that enable customers to manage their finances more effectively while on the go. We have also placed strong emphasis on automation of digital processes for Business Banking, as can be seen in the **increase in self-service options** for customers and the Bank's cooperation with fintech company Payday has made operational administration easier for sole.

Open web services will play a bigger role in the immediate future, and Business Banking has identified important opportunities for growth in the field. During the year, we held a **fintech event** for 150 guests at Gróska business growth centre, in cooperation with the Fintech Cluster. In addition, our representative at the Copenhagen Fintech conference in Denmark participated in panel discussions on the future of open banking.

In recent years, Ergo Asset Financing has placed particular emphasis on **improving customers' experience** by adding features such as **digital signatures, digital document registration**, and an improved **application process**. We are also taking the final steps towards **automated lending decisions**, which will ease and expedite the loan application process for our customers. Ergo continues to aim at further improvements to these solutions, as well as increased automation of loan decisions.



Businesses' sustainability journey

Sustainability remains one of the Bank's key priorities, and Business Banking plays a leading role in this journey, as SMEs are of key importance in innovation and development throughout the Icelandic economy.

We have engaged in regular dialogue with our customers and offer seminars on this vital topic, and we see that more and more businesses assign greater priority to long-term sustainability.

A steadily increasing share of Ergo's loans to individuals takes the form of green financing, which grew by nearly 40% during the year. Furthermore, demand from companies is rising continuously, led by car rental agencies' investments in **electric vehicles that support energy**

switching. As infrastructure development grows further in Iceland, this trend is set to continue.

We believe that companies that prioritise sustainability will stand out from the crowd and ensure growth for the future. We are determined to support our customers and participate actively in their journey. As of year-end 2022, nearly 60% of loans from Business Banking had undergone an **ESG risk assessment**. **By the end of 2023, that share had reached 86%.** Towards the end of the year, Íslandsbanki began reviewing its Sustainable Financing Framework, as requirements and benchmarks have changed somewhat since the Bank issued Iceland's first such framework in 2020.

Corporate and Investment Banking

Corporate and Investment Banking, a leader in investment banking in Iceland, focuses on providing its customers with comprehensive financial and investment banking services. The division serves large firms, pension funds, municipalities, UCITS funds, institutional investors, and high net worth customers.

Corporate and Investment Banking employs experts with decades of financial experience, including securities and foreign currency sales, investment advice, corporate finance, lending, and private banking.

We give top priority to knowing our customers' needs, and in support of this aim, we have a dedicated staff with expertise in all key sectors of the economy. We emphasise initiative and comprehensive service, with short communication channels and smooth collaboration across the division's units, which enables us to know and satisfy our customers' needs as

effectively as possible thereby empowering our customers to succeed.

Building on its extensive experience of complex, wide-ranging projects, our team has led many of the largest transformational endeavours in the Icelandic economy in recent years.

Íslandsbanki has developed a clear policy for lending outside Iceland, with primary focus on the North Atlantic fishing industry.

Market share¹

30%

of Iceland's 300 largest companies

Leading

in FX Sales



Net inflow of **assets under management** in Private Banking was **ISK 8 billion**.



New lending amounted to **ISK 55 billion** and an additional ISK 50 billion of loans were **refinanced**.



25 years of cooperation between Íslandsbanki and Vanguard, Íslandsbanki was Vanguard's first partner outside the United States.

¹The average market share in 4Q23 among top 300 companies according to Frjáls verslun magazine.

“ A strong performance in a demanding environment

Corporate and Investment Banking had its best operational year to date despite a very demanding economic environment. Prolonged headwinds in securities markets had a negative impact on both Corporate Finance and Securities Sales, as high interest rates have historically dampened activity in these areas. Nevertheless, issuance of equity, tradable bonds and bills was successful, and towards the end of the year securities markets showed signs of firming up.

Difficult times in securities markets are always challenging for Asset Management, as high market volatility can test investors' risk tolerance. The Bank has emphasised active communications, educational efforts, and information disclosure to its customers.

Íslandsbanki's FX Sales is a leader in the market and delivered yet another strong year in 2023. Turnover grew considerably, owing not least to the resurgence of tourism and to increased use of hedging instruments.

Lending activity was robust during the year, although competition from foreign financial institutions has grown significantly. Among large companies, demand for credit has contracted noticeably in the wake of interest rate hikes. The Bank's main priority has therefore been on cementing strong business relationships by providing excellent comprehensive banking service. Cooperation with Iceland Funds' Corporate Lending Fund was successful during the year, with six joint projects underway and the fund more or less fully invested.

Kristín Hrönn Guðmundsdóttir
Managing Director,
Corporate and Investment Banking





Organisational structure

Corporate Banking

Manages business relationships with large companies and institutions. The unit is responsible for all of the Bank's service to these customers. With expertise in fishing, construction, and tourism, it provides service to all sectors of the Icelandic economy.

Corporate Finance

Provides investment banking services to both companies and individuals, such as acquisition and disposition of companies, mergers and other changes in ownership structure. In addition, the unit provides advisory services in connection with public listings, oversight of share offerings, preparation of prospectuses, and admission of securities to trading on the exchange.

Brokerage and Derivatives Desk

Brokerage consists of equity, fixed income, currency and derivatives sales, which in turn provide currency swaps, interest rate swaps, and forward contracts in equity and fixed income market, as well as primary issuance of fixed income instruments. The unit's customers range from individuals to institutional investors.

Asset Management

Comprises Private Banking, Institutional Investors, and Asset Servicing. Íslandsbanki's Private Banking offers asset management and advisory services to high net worth individuals, investment companies, funds, and charities. Institutional Investors manages business relationships with large investors and is responsible for asset management services provided to these customers. Assets Servicing provides infrastructure services relating to financial instruments.



Ísfélag

Ísfélag was listed on Nasdaq Iceland in December, in the largest share capital offering of the year, with Íslandsbanki among the managers and brokers.

The subscription period closed on 1 December, the anniversary of the founding in 1901 of Iceland's oldest currently operating limited company. Ísfélag is a welcome addition to Nasdaq Iceland, where **fishing companies have gained significantly in prominence in recent years.**

The share capital offering was highly successful, and demand was strong in spite of challenging market conditions early in the year. The offering was oversubscribed, with around 6,500 orders totalling ISK 58 billion and sales amounting to ISK 18 billion.

This **brisk participation among retail investors** bodes well for investment in listed equities, which is an important element in maintaining an active and desirable securities market.



Styrkás

During the year, Íslandsbanki Corporate Finance provided advisory services on projects connected to holding company Styrkás, aimed at building up a strong company that provides a wide range of services to the Icelandic business community.

The Bank acted as advisor to Horn IV in Styrkás' **ISK 3.5 billion share capital increase**, thereby laying the groundwork for Styrkás' future growth. The aim of the share capital increase is to launch shareholders' vision of a leading service company in the corporate market that has the capacity to provide services in relation to the foreseeable investment in infrastructure.

Later in the year, it was announced that Styrkás had reached an agreement to **acquire Stólpi Gámar** and related companies. Íslandsbanki is an advisor for the transaction, which is set to conclude early in 2024.

Stólpi Gámar is a leader in shipping container and housing unit solutions for businesses and individuals, and the acquisition marks an important step in expanding Styrkás' service and building up a third core in its operations.

Iceland Funds Ltd.

Iceland Funds Ltd., the oldest asset management company in Iceland, was founded in 1994. It is a subsidiary of Íslandsbanki and is operated by an independent board that is elected annually.

The company manages 22 funds for retail investors, including bond funds, equity funds, and mixed funds, as well as alternative and specialised investment funds. Iceland Funds has approximately ISK 345 billion in assets under management, and roughly 12,000 investors and depositors choose to invest their money in the company's funds. For a number of years, Iceland Funds has been a leader in the management of funds for retail investors in Iceland, with

a market share of around 30%. The company operates a range of bond, equity, and mixed funds and has also specialised in venture capital and real estate funds. Every year since 2013, Iceland Funds has been designated an outstanding company by CreditInfo, as well as being recognised for excellence in operations and excellence in corporate governance.

Market share¹

~ 30%

of the domestic fund market for retail investors



About **12,000 customers** choose to invest their savings in products offered by Iceland Funds.



After steep interest rate hikes in the recent past, terms in the bond market are historically favourable, and the **outlook is for strong returns on bonds** in the near future.



The Liquidity Fund and the **Interest Account Fund** are excellent choices for investing liquid assets and are very popular among individuals and companies alike. These funds charge no transaction fees, and customers' investments are always available for withdrawal with one business day's notice.



Iceland Funds currently employs **22** asset management and investment **specialists**.

¹Based on information from Keldan and websites of the fund management companies.

“ Iceland's largest selection of funds can be accessed in Íslandsbanki's app and online bank

For 30 years, Iceland Funds has offered Icelandic depositors a wide selection of savings options ranging from short-term funds for liquid assets to equity funds suited to long-term savings and investment. The most favourable option is to invest in funds by monthly subscription, which can be set up in the Íslandsbanki online bank.

The Icelandic equity market faced a demanding environment during the year, with a long and steep monetary tightening phase, persistent inflation, and various risk factors making an impact on the market. The bond market was sluggish early in the year but then rallied in the second half. Interest rates appear to have peaked, and markets are likely to rebound in

the new year. In 2023, three new companies were listed on the stock market: mining company Amaroq, real estate firm Kaldalón, and fishing company Ísfélagið.

Iceland Funds established a new fund during the year – IS Haf fjárfestingar slhf. – in cooperation with primary investor UR Seafood. An institutional investment fund of ISK 10 billion, IS Haf invests in ocean-related activities ranging from procurement of raw materials and processing to sea-related tech solutions, infrastructure, and biotechnology. The fund invested in two ocean-related companies during the year and is examining additional investment options.

Kjartan Smári Höskuldsson
Managing Director,
Iceland Funds Ltd.





Organisational structure

Within Iceland Funds are three business units focusing on fund management, asset management, and alternative investment funds. Also in place are strong risk management, business development, operations, and legal teams.

Fund management

The company's fund managers oversee funds that invest in bonds, stocks, and other financial instruments. Funds are a sound and economical way for depositors to invest their money in a diversified securities portfolio, thereby reducing risk. Iceland Funds also operates the Alpha fund, which takes positions in the domestic stock market and is available only to institutional investors.

Asset management

Iceland Funds' strong asset management team manages assets for individuals, public entities, and institutional investors that have made asset management agreements with Íslandsbanki.

Alternative investment funds

Since 2012, Iceland Funds has accumulated substantial experience in real estate investments and property development, as well as venture capital investments. Seven experienced experts manage the alternative investment funds.



A leader in responsible investment

Iceland Funds has adhered to the principles of responsible investment in all of its asset management since 2019, and in 2018 it established the first green bond fund in Iceland.

Each year, Iceland Funds issues a sustainability report, and in 2022 it published information on its financed emissions for the first time.

Using calculations based on the methodology from the Partnership for Carbon Accounting Financials (PCAF), the company has published data for 2020-2022. Iceland Funds was the first fund management company in Iceland to calculate and publish information on its financed emissions.

Allocation and Impact report

Financed emissions (in Icelandic)



Funds in the Íslandsbanki app

Íslandsbanki was the first bank to open for in-app fund trading. Now about half of fund transactions are done through the app but a 25% discount is provided on the cost of purchases in funds in the app.



Regular savings

A monthly subscription to funds pays off. You can start regular savings in funds in Íslandsbanki's online bank and thus enjoy the best possible discount, which is a 50% discount on the cost of purchases.



Strong foundations through professionalism



Digital and Data

In 2023, strategic focus has been placed on aligning and leveraging digital and data capabilities, with the creation of a new Digital and Data unit. The new unit unites technical expertise, product development and data excellence in one team, in line with the Bank's emphasis on digital and data driven customer service offerings.

Data driven and differentiated service offer

Íslandsbanki has seen major digital wins 2023, with the introduction of new digital solutions for both individuals and corporates. Fróði the friendly chatbot leverages AI to boost customer service and efficiency and has received outstanding feedback from our customers. Fróði is constantly evolving and can now provide information to customers with electronic authentication.

The loan domain has seen significant advances, with digital refinancing of loans, automatic loan provisioning and digital credit decisioning. Car loans are now credit assessed and notarised digitally, substantially improving the car loan journey.

Íslandsbanki has placed emphasis on digital solutions for corporate clients with digital corporate onboarding, overdraft and equity trading now available. The new online bank is

underway and will create a new and improved customer experience for corporates. Expense and receipt management in the app is one of the improvements implemented with the aim of making life easier for our customers.

During the year effort has been put into strengthening Íslandsbanki's data foundation, with the aim of being in the forefront when it comes to data excellence and AI innovation. Íslandsbanki has launched a new data driven sales and behavioural tracking platform, which will enable the Bank to leverage customer insights to improve service to customers. The transformation of data architecture and usage to drive business decisions will be a big focus for 2024.

“ Data driven customer experience and insights

Over the past year, our focus has shifted markedly to expediting the use of analytics and data within the Bank to drive the new differentiated service strategy. This strategic emphasis is not only technology focused but also about changing the data culture within the broader organisation through the use of enhanced analytical capabilities, allowing us to make data-driven decisions with greater confidence. A testament to our ongoing focus on technological excellence is the successful migration of our debit card services—a complex project that was executed with minimal business

impact, the focus will shift to credit cards in 2024. We've also continued our focus on digitising corporate and business banking products and services with additional features within the onboarding process, ensuring that our business clients can commence their financial journeys with us more swiftly and smoothly than ever before. Our commitment to exploring leading-edge technology ensures we remain at the forefront of the banking sector, with cautious exploration of AI technologies within the customer service space.

Riaan Dreyer
Managing Director,
Digital and Data



Security and stability

Without the burden of legacy systems, the Bank can focus on building a secure environment that can withstand the ever increasing threat of cyber attacks.

Íslandsbanki has focused on proactive actions to prevent breaches and invested in increased security, quality and automation of development and operations. This includes running our first TIBER aligned red teaming exercise and preparing for the new DORA (Digital Operational Resilience Act) requirements. The Bank has as a result seen significant improvements in operational stability and no confirmed breaches or data loss resulting from external attacks or compromises.

Digital direction

Íslandsbanki has a clear strategy to create value for the future for our customers and shareholders. The key elements of 1) **differentiated** and 2) **digital first** service, with 3) **data insights** will be the driving force behind development of Íslandsbanki's digital products and services.

Creating value for the future with a digital first, data driven and differentiated service offer



Service

Differentiated service model based on customer potential.



Service



Data

Digital first service through preferred channels.



Data

Drive customer relationships through data insights.

Íslandsbanki app and online bank
stability and uptime best in class

> 98%

App Apdex rating
- usage, speed and stability

> 99.98%

Netbanki uptime

90% of solutions through automated release
processes, increasing efficiency and speed

= 0 Data Loss

= 0 confirmed breaches



Fróði - the friendly chatbot

- Launched in **2020**.
- Received „**most likeable**“ chatbot award in 2023.
- Provide both **authenticated and non authenticated services**.
- Voice enablement and **GenAI** is the next evolution.

> 85%

Fróði customer
satisfaction.

> 51%

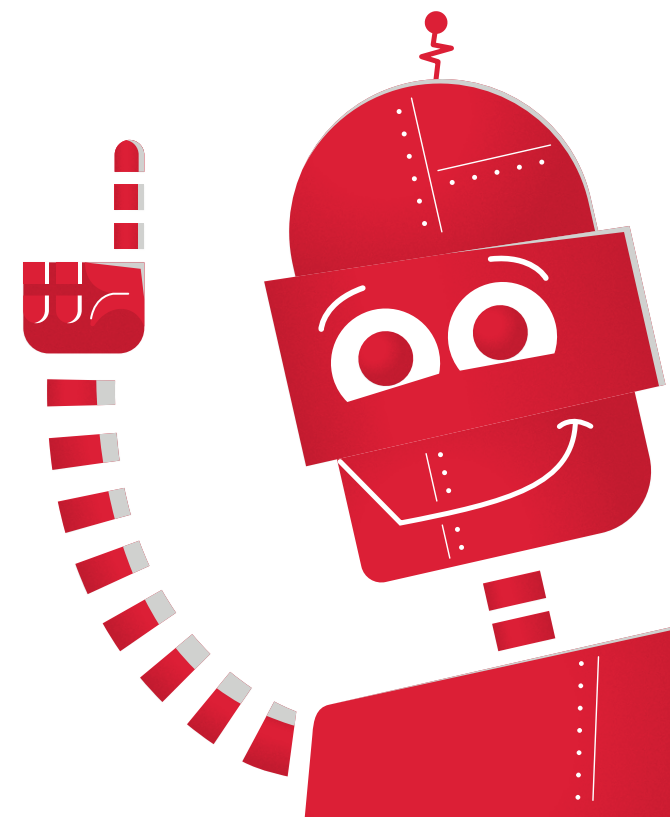
Requests answered
by Fróði vs human
advisors.

> 1,575

Requests that Fróði
knows the answer to.

> 96%

Questions **fully or**
partly answered.



Major digital wins 2023

- New **Digital and Data** unit and strategic investment in data-driven digital product development.
- New debit card system live.
- Data driven sales and service journeys and behavioural tracking in channels.
- Regular savings in the Íslandsbanki app.
- Automatic loan provisioning and credit decisioning.
- Digital credit assessment and notarisation for car loans.
- Equity trading for corporates in the app.
- First version of new Íslandsbanki online bank.
- Fróði 2.0 and NLP innovation.
- Expense and receipt management in app.
- Digital refinancing of mortgages.
- Digital corporate onboarding.
- New collections and associations system.
- New access management system.



99%

of mortgage applications now digital.

80%

of changes to credit card limit changes via app.

51%

of advisory center chats are now **served by chatbot**.

50%

of retail equity trading is conducted **via app**.

82%

of individual customers are **active in digital channels**.

Risk Management

Cautious risk assessment and sensible risk pricing are key elements of Íslandsbanki's operations. An effective framework for risk management and internal monitoring lays the foundations for the Bank's risk management and capital management. The framework is structured as three lines of defence, with the objective of ensuring that decisions to take risk are well grounded and that the Bank's risk awareness is strong.

Íslandsbanki's staff members have a keen risk awareness, with a focus on transparency, open communications, clear accountability, responsiveness, and respect for risk. All business decisions and the risks associated with them are in the hands of business units and are subject to clearly defined review and monitoring processes. Decision-making authorisations depend on the scope and complexity of the underlying risk.

The Bank's funding is broad-based, and its sturdy capital management framework is based on the standardised approach provided for in European regulatory instruments.

The Bank's year-end capital ratio was 25.3%, which is 5.0 percentage points above the regulatory requirement when the counter-cyclical buffer increases in March 2024. Íslandsbanki's goal is to maintain a management buffer ranging from 1.0-3.0 percentage points above external requirements in order to cover expected and unexpected fluctuations in risk-based assets and earnings.

As a result, the Bank is well prepared to face continued economic uncertainty stemming from internal and external factors, and it has the financial strength to provide households and businesses with the services they need to minimise the adverse impact of inflation and high interest rates.

+ All material risk factors are discussed in detail in the Pillar 3 Report

- ☒ Risk Management and Internal Control
- ☒ Capital management
- ☒ Credit Risk
- ☒ Market Risk
- ☒ Liquidity Risk
- ☒ Operational Risk
- ☒ Compliance risk
- ☒ Sustainability Risk

“ An ever-changing environment calls for strong, effective risk management

Even though banks are in many respects conservative institutions, their operating environment is constantly changing. New risks emerge regularly and can strongly affect banks' risk profile. These include technological innovations, social and political unrest, environmental impact, cyberthreats, and earthquakes. Such risks can have a major impact on banks' operating results and reputation. As a result, constant vigilance is needed, and risk management must be flexible and effective, so that new risks can be identified and assessed.

Because of internal and external events, 2023 was a demanding year in many ways. The Bank has monitored its credit risk closely, owing to high inflation and rapid changes in interest rates, yet arrears remain very limited despite these challenges. Non-financial risks have also attracted significant attention, and the Bank has accorded even greater importance to compliance risk monitoring, partly by making internal organisational changes. In the area of risk management, Íslandsbanki is well prepared both to face changed requirements and to monitor and manage new and existing risks.

Guðmundur Kristinn Birgisson
Chief Risk Officer





Risk profile

Credit risk is the principal risk factor in Íslandsbanki's operations, accounting for roughly 90% of risk-weighted assets. Credit risk is the risk that customers may not be able to honour their end of a contract, including being unable to repay their loans on time. The objectives of managing credit risk are to achieve an acceptable balance between risk and income and to minimise the adverse impact on the Bank's overall operating performance. The Bank adheres to a prudent credit risk policy that has delivered a well-diversified, well-secured loan portfolio. The Bank has long maintained a cautious attitude towards risk-taking. It is currently working on expanding its digital products and services, with the aim of making lending decisions more data-driven and improving risk management even further.

Íslandsbanki's Pillar 3 Report provides detailed information on the Bank's risk management and risk profile and explains how the risk profile affects the assessment of capital and liquidity requirements.

[Pillar 3 Report](#)

Sustainability risk

Sustainability risk stems from the risk of suffering adverse effects of external environmental, social, and governance (ESG) factors. These factors include but are not limited to climate change, biodiversity, corruption, human rights, labour market conditions, personal data protection, and business ethics.

Significant advances have taken place in the area of sustainability risk, and requirements concerning financial institutions' public disclosures on sustainability risk have been tightened. The Additional Pillar 3 Disclosures supplement to Íslandsbanki's Risk Report now includes new templates based on external sustainability risk disclosure requirements.

In accordance with disclosure requirements, the Pillar 3 Report contains information presented in standardised tables and templates, referred to as **Additional Pillar 3 Disclosure**, which can be found in Excel format on the Bank's website.

[Additional Pillar 3 Disclosure](#)



Three lines of defence model

The first line of defence is the owner of all risk and is responsible for day-to-day risk management.

The second line of defence is responsible for maintaining an effective internal framework to facilitate satisfactory risk monitoring, prudent business practices, and reliable information disclosure, as well as compliance with regulatory instruments, financial supervisors' requirements, and internal policies and procedures.

The third line of defence provides impartial assurance that the monitoring framework in the first and second lines of defence is effective and appropriate.

Compliance

Íslandsbanki places strong emphasis on its obligation to operate in compliance with legal and regulatory provisions, as well as with supervisory bodies' expectations. It also takes seriously its role in the fight against financial crime, as both of these factors are an important element in maintaining a normal and healthy financial market in Iceland.

The Compliance monitors compliance risk within the Bank. It undertakes this task in a variety of ways: with analysis, advisory services, provision of training and information, appraisals, and reporting. All of this is directed at developing sound business practices and preventing market abuse, insider trading, and conduct violations, as well as working against financial crime and violations of personal data protection. Compliance is an independent monitoring unit in Íslandsbanki's second line of defence and reports directly to the CEO.

Major changes were made to its activities during the year, as the unit was strengthened and enlarged significantly, the Compliance Officer's position was designated a managing director's position, and a new director was hired to lead the expanded department. This demonstrates the Bank's recognition of the importance of the department and the work it carries out. The financial market regulatory framework and the requirements entailed in monitoring compliance have grown markedly in recent years. Priorities have changed, and the requirements are at once broader, more complex, and

more stringent. At the same time, supervisory bodies' powers have been expanded, and the community as a whole makes more demands of financial institutions.

The Managing Director of Compliance is engaged by the CEO, subject to Board approval, and sits on the Executive Committee and the All-Risk Committee, as well as acting in an advisory capacity for many other committees within the Bank. The Director of Compliance is also the Bank's Compliance Officer in the sense of the Act on Measures against Market Abuse and is responsible for the Bank's anti-money laundering and terrorist financing measures. The Bank's personal data protection officer also sits within the Bank's Compliance Officer.

The department's guiding principle is to observe independence, impartiality, professionalism, and credibility in all of its work.

“ This is a marathon, not a sprint

The implementation of changes designed to strengthen the Bank's Compliance department is proceeding apace after a busy year. The year was clearly a very demanding one, and staff members are determined to do the job well.

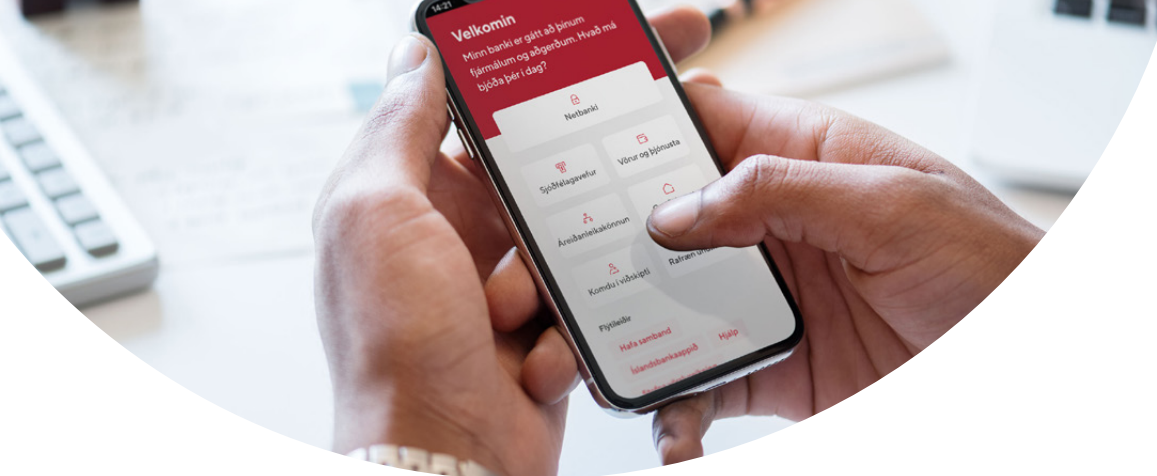
Important reforms are now complete, and the Bank's infrastructure and risk culture have been strengthened for the long term. But we must not forget that the journey we are taking is a long-term one and that we, like others in the financial market, must always be ready and willing to blaze new trails.

Regulatory provisions evolve and the Bank's infrastructure adapts to new and changed requirements, ranging from sustainable finance and tighter rules on cyber- and information security to the possibility of new comprehensive anti-money laundering legislation, and everything that lies between.

Compliance department staff members are ready for the next stage in the Bank's activities and look forward to meeting the challenges the Bank will face in its future endeavours. An important element in this is to maintain and increase the level of experience, expertise, and skill within the department.

Barbara Inga Albertsdóttir
Chief Compliance Officer





Settlement with the Central Bank of Iceland

In June 2023, Íslandsbanki made an agreement with the Central Bank of Iceland to settle a case involving violations committed by the Bank. The case centred on the sale of a 22.5% stake in Íslandsbanki that was previously owned by the Government. The Bank paid a fine of ISK 1.2 billion to the Treasury and pledged to implement specified reforms, which were an inalienable part of the agreement. The required reforms focused on measures due to potential conflicts of interests and risk assessments of projects, the documentation and storage of audio-recorded telephone conversations and other electronic communications, customer classification, and information disclosure to customers. They also touched on healthy business and governance practices. The Bank engaged Oliver Wyman to act as advisor for the project.

The focal point of the reforms was to strengthen the Bank's risk culture, with senior management and other managers

setting the tone for all work, training, and implementation of the reforms. Emphasis was also placed on the responsibility of all employees for the Bank's work. Governance practices were strengthened accordingly, among other things by restructuring non-financial risk and the role of the Operational and Security Committee. The role of the Compliance Officer was expanded, and the head of the department now sits on the Bank's Executive Committee.

The Central Bank has also taken a decision following its on-site inspection of Íslandsbanki's risk-oriented anti-money laundering and terrorist financing measures.

The Bank takes the Central Bank's comments seriously and is working hard on responding to them even though the Central Bank has not made any specific demands for remedial action.



A societal plague that requires cooperative efforts

Financial institutions play a key role in society's fight against money laundering and terrorist financing.

Íslandsbanki is keenly aware of the risk, and its employees throughout the Bank are constantly at work strengthening defences and investing in them, as well as training our staff to carry out a wide range of monitoring. Retail customers often feel the presence of these defences, and they may find the questions asked and requirements made of them peculiar. These questions and requirements have a purpose, though: to enable us to act on our plan to protect the Bank from being used for money laundering – to the benefit of all.

Those who launder money are continuously seeking out new ways to

put that money into circulation. As a result, their methods are often highly sophisticated, and they may use a network of several financial institutions, both to avoid falling under suspicion and to circumvent our monitoring and controls.

Íslandsbanki encourages even closer cooperation with the Government and other financial institutions, with emphasis on more effective collaboration in this area. It is important that it be possible to share information in order to achieve the goal of preventing money laundering. Money laundering is a plague on society. We should all join forces to combat organised crime and reduce the risk that Icelandic financial institutions will be used to launder money.



Risk factors on which Compliance focuses

- ☒ **Compliance risk**
- ☒ **Financial crime risk**
- ☒ **Conduct risk**
- ☒ **Regulatory amendment risk**
- ☒ **Personal data protection risk**



Sustainable Íslandsbanki



Towards a more sustainable future

Íslandsbanki has resolved to be a force for good in the Icelandic economy. The Bank is dedicated to working with its customers and thereby making an impact on Icelandic society.

Continued commitment

Íslandsbanki remained committed to its sustainability journey throughout the year. The methodology of the Bank's ESG risk assessment for corporate clients was updated, and several managers gave presentations to the Sustainability Committee and submitted updated assessments. The Bank updated its sustainability policy to reflect new developments in the sustainability environment. In addition, Íslandsbanki participated in updating the business community's Climate Road Map for financial institutions. One of the Bank's biggest sustainability milestones for the year was the revision of its Sustainable Financing Framework, which was updated to take account of new regulatory provisions, experience gained from previous versions of the framework, and currently acknowledged best practice. Employees from various departments within the Bank participated in the project: Business Banking, Strategy and Sustainability, Risk Management, Corporate and Investment Banking, Individuals, and Finance.

Developments in the sustainability universe

The field of sustainability has evolved rapidly in recent years, and 2023 was no exception. In Iceland, two new regulations took effect: one on a taxonomy for sustainable investments and the other on sustainability-related disclosures in the financial services sector. In 2024, more detailed legislation on non-financial information disclosures will probably enter into force. These regulatory instruments aim at enhancing transparency and preventing greenwashing. Many large companies are finding their way through this changed landscape, Íslandsbanki included, but the Bank has high hopes that the new legislation will provide readier access to data and ensure greater data integrity. In addition, the Bank has conducted a basic double materiality assessment – the first step in the forthcoming legislation on non-financial disclosures – in preparation for passage and implementation of the Act.

The sustainability chapter in this report has been compiled on the basis of the basic double materiality assessment results, as well as the Nasdaq ESG guidelines, the Global Reporting Initiative (GRI) standards, the UN Principles for Responsible Banking, and the UN Sustainable Development Goals. This is because information on metrics in certain categories is still lacking, and the Bank wants to ensure year-on-year comparability of information disclosures.

Cooperation

Íslandsbanki has cooperated with various domestic and international organisations. The Bank considers it important to participate in international commitments, as well as supporting domestic cooperation in the area of sustainability. Íslandsbanki is a member of the UN Global Compact, PCAF, TCFD, Nordic CEOs, the UN Principles for Responsible Investing (Iceland Funds), Festa, Iceland SIF, NZBA, and the UN Principles for Responsible Banking.



Sustainability milestones in 2023

The Bank's efforts to meet sustainability targets met with good results. Implementation of sustainability targets proceeded apace during the year, and most of the targets were reached, although not all of them. A coordinated effort across the entire Bank is the key to success, and it was gratifying to observe the passion and interest shown by employees throughout the organisation.

The share of ESG risk-assessed credit risk rose from **76% at the end of 2022 to 93% at the end of 2023.¹**

The Bank's targets was to reach 100% but the Bank aims of finishing the 7% in the first quarter of 2024.

Share of suppliers that have formally certified their compliance with the Suppliers' Code of Conduct rose from 45% to

77%

A **target for reducing emissions in the seafood sector's loan portfolio was published**, but setting targets for agriculture and construction proved unfeasible.

25

meetings with clients of Corporate and Investment Banking with the heading sustainability and net-zero.

The Bank supported

10

NGOs/educational institutions by donating computer equipment.

ISK 97bn in outstanding sustainable loans as of end-2023, including:

60% green loans

26% blue loans

14% social loans

The Íslandsbanki **Entrepreneurship Fund** awarded

ISK 50_m

in grants to **14 sustainability-related innovation projects.**

The Equality and Diversity Council reached full-scale operability and presented an **action plan** that was **approved** by the Executive Committee.

¹Excluding individuals and small enterprises, which are out of scope.



Preliminary double materiality assessment

Sustainability is constantly evolving, and as a result, the scope of the regulatory framework for sustainability disclosures has expanded significantly. Regulations on a taxonomy for sustainable investments and on sustainability-related disclosures in the financial services sector took effect last year. Next year a regulation on firms' sustainability disclosures is set to take effect, and the first step towards implementing it involves a double materiality assessment.

Assessment method

Íslandsbanki conducted a preliminary double materiality assessment to prepare for the implementation of the forthcoming regulatory framework. A double materiality assessment centres on evaluating the Bank's impact on the environment and on people, and the opportunities it brings to both, as well as the financial risks and opportunities entailed in the Bank's activities. The double materiality assessment is conducted in order to prioritise areas where the Bank affects people and the environment the most, as well as areas that have the greatest financial impact on the Bank itself. A total of ten areas must be ranked in priority order and assessed in terms of the potential positive and negative impact associated with them; however, those that have already materialised must also be assessed.

In preparing a double materiality assessment, it is important to identify stakeholders. Íslandsbanki's stakeholders include employees, customers, suppliers, shareholders, and the general public. It is important to take stakeholders' opinions into account in the assessment process. A survey was sent to the employees who interact most with customers and the public, asking respondents to assess the importance or materiality of the issues according to various scales, based on their interactions with stakeholders and their knowledge

of stakeholders. In order to assess Íslandsbanki's financial risks and opportunities, the Bank's experts were entrusted with carrying out a quantitative analysis. The Bank used other sources such as the Climate Road Map for the business community and Iceland's Climate Action Plan.

ESRS standards related to sustainability

- Climate change
- Pollution
- Water and marine resources
- Biodiversity and ecosystems
- Resource use and circular economy
- Own workforce
- Workers in the value chain
- Affected communities
- Consumers and end-users
- Business conduct





Results of Íslandsbanki's impact analysis

Four areas stand out after the basic assessment: *climate change, own workforce, consumers and end-users, and business conduct.*

The Bank is required to prioritise climate change and own workforce. All companies falling under the scope of the Act are required to give priority to *climate change*, and those with more than 250 employees are required to prioritise *own workforce*. These are also designated as impact areas in the survey and the quantitative analysis. They are in line with the Bank's previous assessment of impact areas, carried out in 2019: climate change and gender equality. Gender equality are closely linked to own workforce, as well as to *consumers and end-users*. Although all of the topics are important, the Bank is considered to have the greatest impact in those areas that have been assigned priority ranking.

As a result, information disclosure for 2023 centres on these, but in 2024 a more detailed impact analysis will be carried out, which will probably lead to the prioritisation of issues.

! Priority for Íslandsbanki

According to the analysis and the survey taken from front-line employees, the following are areas of priority for Íslandsbanki.

Business conduct

Business conduct is a broad topic with numerous important applications for Íslandsbanki. The Bank has strongly stressed its **corporate culture** in the past year and intends to strengthen it further. Among other important points of tangency are **cooperation with suppliers, defences against corruption and bribery, and the Bank's external political impact.**

Consumers and end-users

The Bank has a wide-ranging impact on consumers and end-users. With increased emphasis on digital development, **service has grown simpler**, but risks associated with cyber- and information security have increased markedly. Furthermore, there is considerable scope to make **improvements in equal rights** in Iceland. Women account for 25% of company board members and 21% of managing directors, which is a decline relative to previous years.

Climate change

The greatest threat facing the world is climate change, and there is nothing more important than responding appropriately to it. Iceland is no exception in this regard. Iceland has adopted ambitious targets of **achieving carbon neutrality by 2040** and achieving a 40% reduction in greenhouse gas emissions by 2030. Reaching these targets requires a joint effort from the public and private sectors.

Own workforce

The Bank's employees are one of its **most important resources**, and it aims to **hire, empower, and retain qualified, reliable personnel**. Íslandsbanki is committed to creating a positive workplace culture and strongly stresses **diversity and broad participation** among staff members.

Growth in sustainable lending falls short of expectations

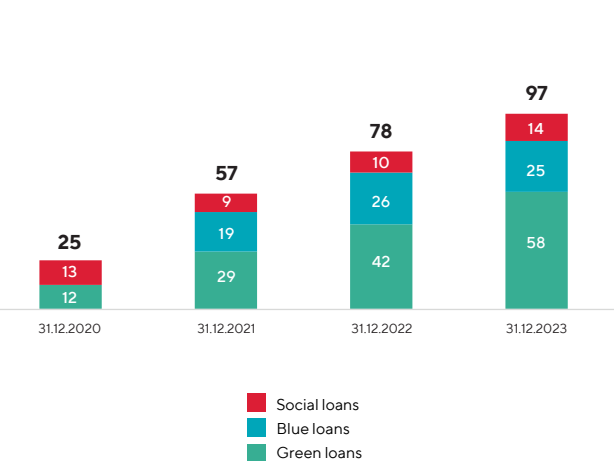
Sustainable assets increased by 24% in 2023, to ISK 97.4 billion at the year-end. In addition to this, undrawn loan commitments amounted to ISK 14.6 billion but had not been disbursed by the end of year. Share of sustainable assets of the corporate loan portfolio is thereby 14%.

Green loans accounted for 60% of sustainable loans, blue loans in connection with certified sustainable fishing accounted for another 26%, and social loans totalled 14%. Vehicle financing for individuals and companies under the framework increased by 82% between years and financing of green buildings by 64%.

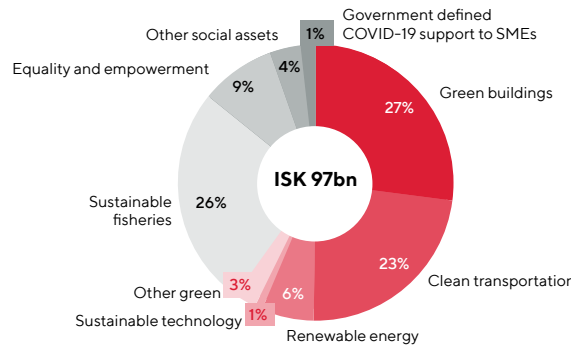
At the end of the year, Íslandsbanki's sustainable financing came to ISK 68 billion, including ISK 46.5 billion older than 18 months. Sustainable debt includes sustainable and green bonds, a loan from the Nordic Investment Bank and sustainable deposits. The sustainable financial framework specifies that sustainable financing must be allocated

to sustainable assets within that time frame. The Bank's sustainable assets exceeded the sustainable debt by 43% which reflects space for increased sustainable financing.

Sustainable assets at year-end
ISK billion

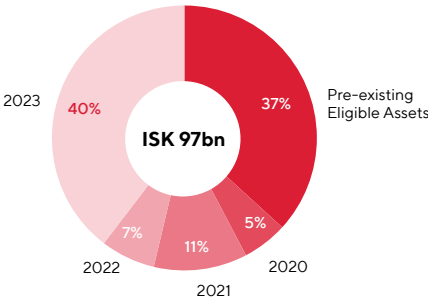


Classification of sustainable assets by category in the Sustainable Financing Framework at the year-end¹



¹Other green loans consists of Sustainable and circular processes and biodiversity and Sustainable waste management. Other social loans consist of Affordable housing and Education and vocational training.

Sustainable assets as of end-2023, by year of loan issuance



[More on sustainable assets and debt](#)

Impact indicators 2023

The impact calculation is based on data from customers and available information from public data utilities.

Environmental impact indicators 2023



68,950 m²
of eco-efficient
buildings.¹



131 GWh of
clean energy
produced.



8,000 tonn
of additional
waste recycled.²



6,101 green
vehicles.



~4,500 km
fibre optic
cables laid

Social impact indicators 2023



212 companies
supported with
COVID-19 loans.



30 loans
to gender
balanced
companies.

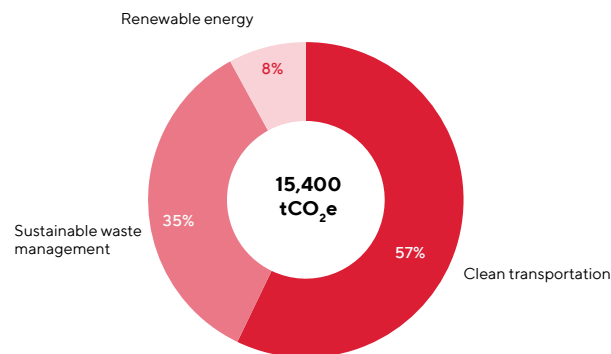


**1 early childhood
education facilities**
with **125 students**
reached.



**171 social
housing**
units financed.

Avoided greenhouse gas emissions in 2023



Information

Can be found in the Sustainable Financing Framework and the Impact and Allocation Report for 2022.

Sustainable Financing Framework

Impact and Allocation Report

Information on MSC-certified fishing and eco-certified goods and services was not available at the time the report was prepared. This information will be published later in 2024.

¹ Estimations based on last share of funding in 2022 as information from respective clients was not available at the time of this report. In 24Q2 this will be updated based on 2023 number and flagged if it causes a significant difference.
² Estimations based on last share of funding in 2022 as information from respective clients was not available at the time of this report. In 24Q2 this will be updated based on 2023 number and flagged if it causes a significant difference.
³ Estimations of driving distance a year from The Icelandic Transport Authority: <<https://island.is/oennur-toelfraedi-samgoengustofu>>, and as distances for 2023 were not available, estimate are based on driven distances in 2022.
 Avoided emission based on information from car producers and comparative estimates from the European Environment Agency: <<https://www.eea.europa.eu/en/analysis/indicators/co2-performance-of-new-passenger>>.

Environmental 2023

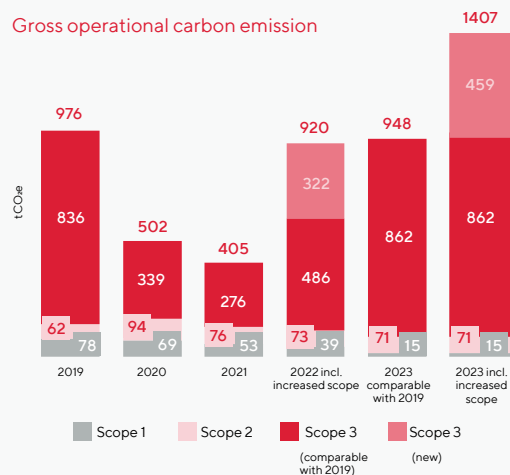
Sustainability
Statement 2023

Strategy and policies

Auditor's Limited
Assurance Report

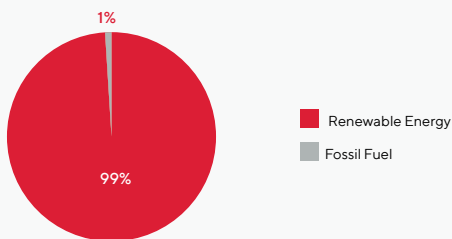
E1 Greenhouse gas emissions

Gross operational carbon emission



E5 Energy mix

Share of total energy usage (7.1 GWh)



E8 Climate oversight / Board

Does your Board of Directors oversee and/or manage climate-related risk?



E9 Climate oversight / Management

Does your Senior Management Team oversee and/or manage climate-related risks?



E10 Climate risk mitigation

Investments in climate risk mitigation were not calculated in 2023, but included for example advisory services, membership fees, infrastructure, product development, marketing, events and carbon offsets.

E2 & E4 Emissions and energy intensity



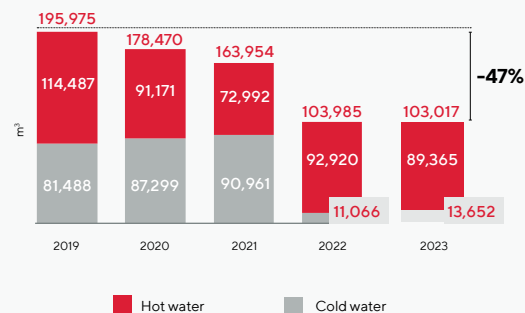
GhG emissions per full-time equivalent (FTE)
1,841 kgCO₂e/FTEs

GhG emissions per unit of revenue
22 kgCO₂e/million ISK

Energy per square meter **450 kWh/m²**

Energy per cubic meter **128 kWh/m³**

E6 Water usage



Other environmental metrics

Are ESG factors considered in relation to lending and/or investments?



The share of credit risk exposure assessed with regards to ESG risk increased from 76% at YE2022 to 93% by YE2023.

Are ESG factors considered in connection with the development of new and existing products?



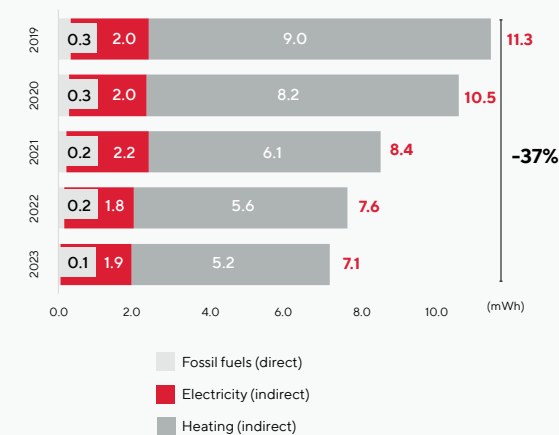
Consideration is given to sustainability risk in product development.

Does the company offer employees regular education on ESG factors?



The Bank hosted both workshops for different units and open meetings.

E3 Energy usage



E7 Environmental operations

Does your company follow a formal environmental policy?



See the Bank's Sustainability Policy, chapter two on environmental factors.

Does your company follow specific waste, water, energy, and/or recycling policies?



Better monitoring of waste in HQ is expected to lead to a significant reduction in unsorted waste. The objective is to reach 90% recycling rate by 2025 the latest.

Does your company use a recognised energy management system?



Klappir Green Solutions and MainManager.

Has the company measured the carbon footprint from its loan and investment portfolios?



Íslandsbanki has reported financed emissions for 2019-2023.

Has the company's board of directors approved and published targets for reduction of greenhouse gas emissions?



The Bank's objective is to shrink the carbon footprint from its operations by 50% between 2019 and 2024 and reach net zero (including financed emissions from loan portfolio) by 2040.

Does the company publish a discussion of sustainability risk and climate risk in compliance with international Task Force on Climate-related Financial Disclosures (TCFD) criteria?



The Bank's Pillar 3 Report for 2023 contains a separate chapter on sustainability risk and climate risk in compliance with TCFD criteria.

Financed emissions


An assessment of the Bank's financed emissions shows that the carbon footprint from the loan portfolio and assets under management is many times larger than the carbon footprint from operations. The Bank's greatest opportunity to be a force for good is through its product and service offerings; i.e., through encouraging and empowering its customers as they travel their own road towards sustainability.

Financed emissions in 2022 and 2023

For the first time, the Bank has published information on its estimated financed emissions concurrent with its annual accounts. On the other hand, the Bank has published information on financed emissions due to Treasury bonds, which are significant.

The carbon footprint from the loan portfolio has now been measured for five years in a row, and it is noteworthy that emissions have not increased materially since they plunged in 2020 due to the COVID-19 pandemic. Substantial changes in the market value of large companies in 2021 caused the Bank's funding ratio in emissions-intensive firms to decline after 2020. This reduction has not reversed and is unlikely to do so. The composition of the loan portfolio has been similar, and emissions within various sectors have not increased discernibly.

Loans falling under the industrial manufacturing sector caused the most emissions in 2023, or about 30%, but accounted for only 4% of the loan portfolio in ISK terms. The road transportation sector ranked second, at 20% of emissions but 6% of total lending. The fishing industry is third, with 16% of emissions and 6% of total lending, and international transport by air and sea accounts for 22% of total emissions but only 1.3% of total lending. Mortgage lending and commercial real estate, which account for a combined 62% of lending, generate 1% of emissions in the loan portfolio.

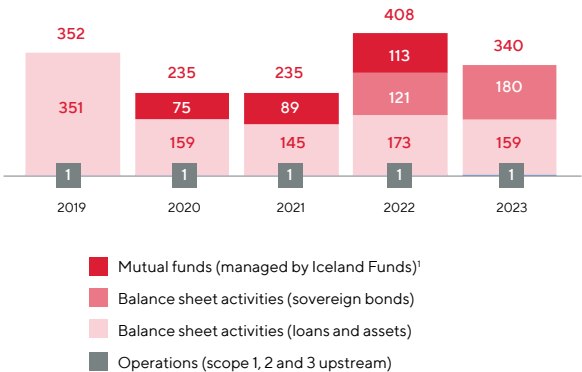
**Methodology**

For further information please refer to the Bank's reports [Pillar 3](#) and [Road to net zero](#)

[Road to net zero](#)

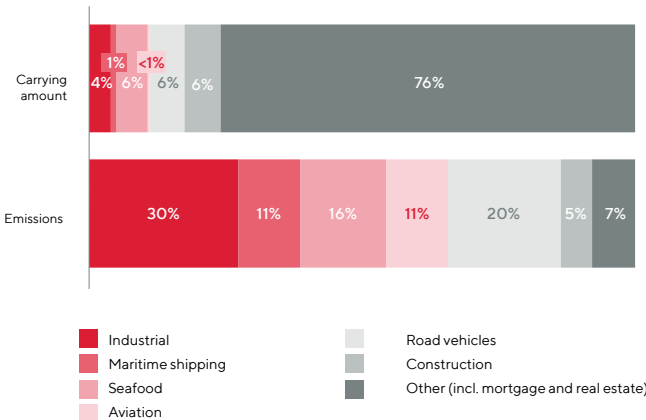
[Pillar 3 Report](#)

Íslandsbanki's total emissions 2019-2023
ktCO₂e



¹ The estimate of financed assets under management in 2023 was not available when this report was written.

Emissions from balance sheet activities in 2023
Sector split by amount and emissions
(total = 152 ktCO₂e)



Targeted reduction in the carbon footprint of the loan portfolio






Íslandsbanki publishes a target for the seafood sector. The target is based on the Icelandic Government's climate guides for the seafood industry. The target is ambitious and a fast transition towards cleaner energy alternatives in ships is necessary.

Íslandsbanki has adopted a range of climate-related measures and was the first Icelandic bank among the founding members of the Net-Zero Banking Alliance (NZBA), an international network of banks dedicated to achieving carbon neutrality in their operations. Through the NZBA, banks representing 41% of banking activity worldwide share their experience and practices as they work towards this shared goal. With the additional sector Seafood, Íslandsbanki has now in the report, On the Road to Net-Zero, Íslandsbanki published its targets for specific sectors that account for 64% of total lending and 78% of total emissions from the loan portfolio in 2019. Íslandsbanki had aims of adding targets for reductions in the carbon footprint for agriculture and construction as well as seafood. However, data availability turned out to be the bottleneck. The Bank hopes to add targets for these sectors when data becomes more accessible.

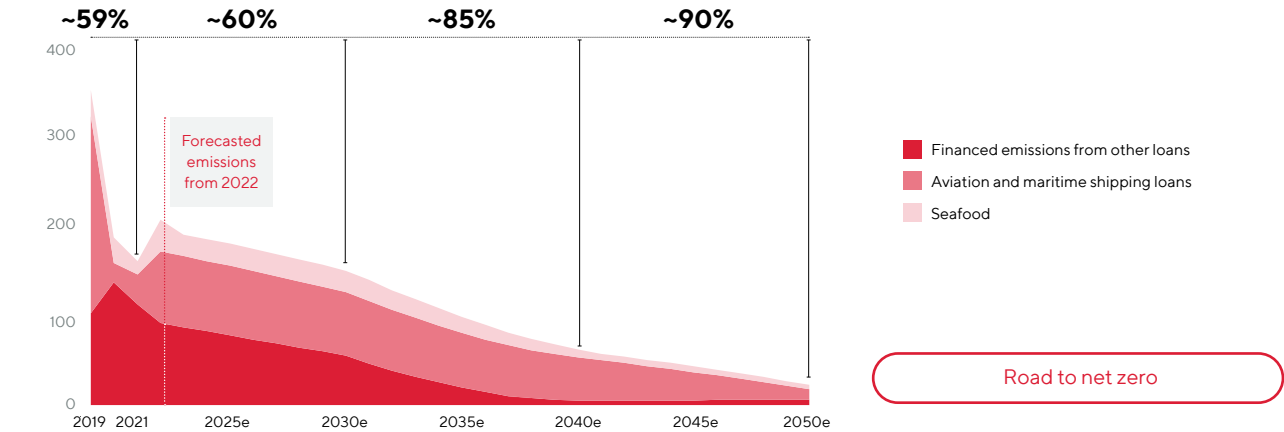
The targets are based on recommendations by the NZBA. Íslandsbanki has aims to set a Science Based Target (SBT) in 2024 and will align the methodology of the current targets with those of the SBT initiative. For the reduction target for Seafood Íslandsbanki applies the same economic dimensions as in the road to net zero report, according to the IEA NZ 2050 to be coherent with the other sectors. For emission reduction targets the Bank applied an assessment done by the seafood sector in Iceland in collaboration with the government¹.

The reduction targets rely upon the fleet in Iceland being renewed, as the average vessel is old, increase in efficiency and transitioning from fossil fuels. From 2030, on to 2040 the Icelandic government has not implemented yet any constraints, so it is estimated that the reduction follows similar constraints as international maritime transport, as the sector face the same constraints regarding technology.

Sectoral target for carbon footprint reduction in the Bank's loan portfolio²
Contraction relative to base year (2019)

Sector	2030	2040	2050
 Aviation and maritime shipping	>65%	>75%	>95%
 Road vehicles	>50%	>95%	>95%
 Commercial and residential real estate	<0%	<0%	<0%
 Power generation	<0%	<0%	<0%
 Seafood	>43%	>75%	>95%

Estimated pathway of emissions from balance sheet
ktCO₂e



¹ Decarbonisation study for the fishing fleet in Iceland & https://www.stjornarradid.is/library/02-Rit--skyrslur-og-skrar/URN/Stoduskysla_Adgerdaaetlun_2022.pdf

² No sectoral targets have been defined for sectors other than the five listed in the table. The graph assumes a 50% contraction for other sectors, in accordance with Iceland's climate objectives and commitments.

Carbon-neutral operations

Banking is not an energy-intensive industry; nevertheless, Íslandsbanki considers it important to set an example and adopt ambitious targets for quantification of emissions from operations, minimisation of the carbon footprint, and mitigating measures. In this way, the Bank contributes to bringing about the changes in attitude that are essential in supporting climate action.

Since 2018, the carbon footprint from Íslandsbanki's operations has been estimated and published in accordance with Greenhouse Gas Protocol methodology. Íslandsbanki's total emissions from operations came to 1,400 tonnes of carbon dioxide equivalent (tCO₂e) in 2023. The sources of emissions included in this total are the same as in 2022, but the focus was on gaining a better overview of total emissions.

Íslandsbanki aimed to shrink the carbon footprint from its operations by 50% between 2019 and 2024. Efforts to reduce the carbon footprint from scope 1 have been quite successful, with a contraction of 82% from 2019 through 2023. This is due mostly to the switch to electric vehicles in the Bank's fleet of cars.

The total carbon footprint from scope 2 and scope 3 emissions, which were measured in 2019 and in 2023, increased by 3%, however, which is far from the Bank's goal of achieving a reduction. During the year, changes were made at the Bank's head offices, resulting in the purchase of a large amount of electrical equipment, which caused 37% of total emissions for the year. **If these one-off emissions in 2023 are set aside, total emissions from comparable scope 3 sources contracted by 43% between 2019 and 2023.** Categories other than electrical equipment and food for the canteen declined between 2022 and 2023, but the largest contraction in emissions – 61% – was due to waste, owing to the installation of smart meters for waste in Nordurturn.

Carbon neutralisation with mitigating measures

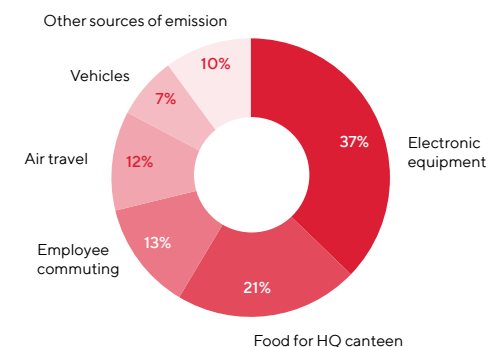
Since 2019, the Bank has ensured that its operations are carbon-neutralised by using mitigating measures to offset the portion that it has not been able to reduce. Íslandsbanki undertakes a variety of projects in order to offset the carbon footprint from its operations in full. To this end, it focuses on certified international projects, although the Bank also supports domestic projects of importance to society and the economy.

Íslandsbanki neutralised its activities in full by purchasing 1,500 certified emission reduction units through the United Nations Carbon Offset Platform. The cancellation project is Solar Photovoltaic based Power Generation in India, which has a certification from Gold Standard and Clean Development Mechanism (CDM). The Bank purchased as well carbon removal units in 2023 from Running tide, a progressive global ocean health company.

Furthermore, the Bank supported an important domestic project during the year with the ex ante purchase of planned certified emission reduction units. The units are from Yggdrasill Carbon's afforestation project at Hvanná. Because the units represent planned (or ex ante) emission reductions, they are not considered ex post units until the reductions have taken place and been verified. Thus the impact of the projects is not included in the carbon offset from the Bank's year-2023 operations but could be used in the future, once the units have been verified.



Top 5 operational emissions sources in 2023



Social 2023

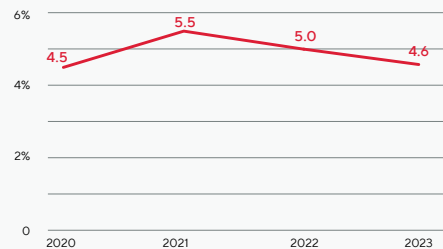
Sustainability
Statement 2023

Strategy and policies

Auditor's Limited
Assurance Report

S1 CEO pay ratio

Ratio: CEO total compensation to median FTE total compensation



Does your company report this metric in regulatory filings? ☒

S4 Gender diversity

Based on headcount (not FTE)

Percentage of women in enterprise

55%

Percentage of women in entry- and mid-level position

56%

Senior- and executive-level positions

46%

S7 Injury rate

Total number of injuries and fatalities, relative to the total workforce

0

S10 Human rights

Does your company publish and follow a human rights policy? ☒

The Bank's Sustainability Policy states that the Bank emphasises respect for human rights and that it does not conduct business related to any human rights violations, such as discrimination based on gender, religion or race, inequality in the labour market as well as slavery and child labour.

If yes, does your human rights policy cover suppliers and vendors? ☒

Suppliers must comply with laws, regulations and international agreements on the protection of human rights according to suppliers' code of conduct.

S2 Gender pay ratio



Median total compensation for men to median total compensation for women

1.31

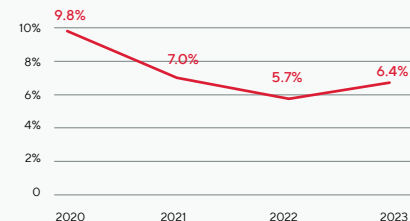


Outcome of equal pay certification

0.2%

Íslandsbanki has received equal pay certification according to the ÍST 85:2012 standard every year since 2018. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%.

S5 Total enterprise headcount held by part-time employees



S8 Global health & safety

Does your company publish and follow an occupational health and/or global health & safety policy? ☒

Íslandsbanki cares about its employees' well-being and supports their health in a number of ways, in line with its human resources policy. The policy covers factors such as the importance of an encouraging work environment.

Other social factors selected based on sector and internal materiality assessment

Does the company have procedures for detection and reporting of alleged misconduct that are well known by employees? ☒

Mechanisms for anonymous reporting of inappropriate conduct are available to all employees.

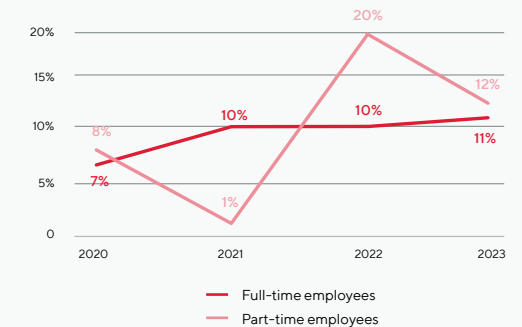
Are the company and its products accessible to marginalised groups, small companies, or communities? ☒

Various factors such as equal rights and accessibility are considered. Furthermore, the Bank stresses that its offices and branches must be accessible to marginalised groups, small companies, and communities.

Does the company offer sustainable loans that support the Government's social objectives? ☒

S3 Employee turnover

Year-over-year change in employees



S6 Non-discrimination

Does your company follow a sexual harassment and/or non-discriminatory policy? ☒

The Bank has in place a policy of sexual harassment and/or equality.

S9 Child & forced labour

Does your company follow a child and forced labour policy? ☒

Íslandsbanki's Sustainability Policy states that the Bank will not do business with any party that is connected in any way with child labour or forced labour.

If yes, do your child and/or forced labor policy cover suppliers and vendors? ☒

Íslandsbanki's Suppliers' Code of Conduct states that the Bank refuses to conduct business with entities that violate human rights including slavery, forced labor or child labour.

Are managers assigned responsibility for ethical marketing and reputational risk? ☒

Managers are responsible for ethical marketing and reputational risk, and there is targeted annual management training covering a large number of these and related factors.

Is there a plan for human resource development that includes targets for recruitment, staff development, and turnover? ☒

Has the company board of directors approved and published equal rights objectives? ☒

The Bank aims to ensure that no single gender accounts for more than 60% of each management layer.

An outstanding workplace for all

Equality and diversity are of primary importance to us. Íslandsbanki has taken clear steps towards greater equality, and in recent years we have focused increasingly on ensuring equal rights and diversity in a broad sense. The objective is to improve each year, thereby being a force for good.

Equal opportunity

Íslandsbanki endeavours to maintain equal gender ratios in all of its divisions, departments, committees, councils, boards, and executive positions. One of the Bank's most important sustainability targets is to ensure that no single gender accounts for more than 60% of the Bank's management team. Employment advertisements are ungendered, and when selecting from between two equally qualified candidates, the Bank shall hire the applicant whose gender is underrepresented in the department concerned. Alongside these equal rights targets, the Bank has adopted an equal rights plan, both of which are in line with the Act on Gender Equality, no. 150/2020. The equal rights plan lays down the Bank's equal pay targets. Íslandsbanki has received equal pay certification according to the ÍST 85:2012 standard every year since 2018. In addition, we have set targets aimed at increasing the number of women in departments that have had large gender gaps, such as investment banking and information technology. Strong emphasis is placed on enabling employees to harmonise their professional responsibilities and their family life, with flexible work hours, part-time employment, and other adjustments insofar as is feasible and necessary at any given time.

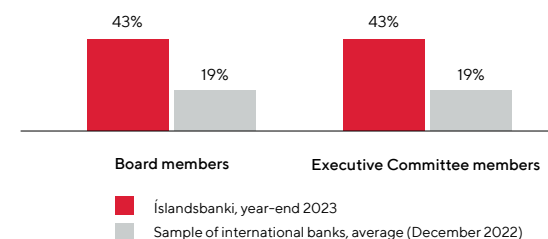
Continuing to move in the right direction

Íslandsbanki places strong emphasis on ensuring equality, diversity, and human rights by welcoming all customers and employees.

All employees deserve to be treated with respect and not be subjected to any type of bullying, gender-based or sexual harassment, or violence (BHV). Such conduct is prohibited by law and is never tolerated within the Bank under any circumstances. During the year, we tightened all of our processes relating to BHV and communications problems. A new policy was introduced, and all information about these topics was presented clearly. All managers participated in a special educational programme aimed at strengthening their ability to respond to all types of communications problems or issues of this kind. In addition, all employees participated in an educational programme on the subject. This endeavour was an element in ensuring the security, health, and well-being of our employees.

During the year, the Bank established an Equality and Diversity Group. The group's vision is to ensure that Íslandsbanki is an outstanding workplace for all. The group aims to act as a channel for equal rights and diversity within the Bank, with emphasis on increased education and awareness. The goal is that the group should have a positive impact in this area and provide structure and support, so that we can all do better than before.

Share of women on the Board and Executive Committee



Source: https://www2.deloitte.com/content/dam/insights/articles/us175770_cfs_within-reach-global-update-article/DI_Within_reach_global_update.pdf

Equality Scale and childbirth leave

Íslandsbanki received the Equality Scale gold seal in 2023, for the fifth year in a row. The Equality Scale is a dynamic project undertaken by the Icelandic Association of Businesswomen in Iceland (FKA). An important element in the programme is to raise consciousness about the value of diversity and equal rights through greater gender equality in management positions. The recognition associated with the Equality Scale confirms that the Bank has made outstanding progress towards the achievement of the programme's goals and has equalised the gender ratios in the top layers of its management.

Íslandsbanki encourages its employees, fathers and mothers alike, to exercise their right to childbirth leave. With the aim of further increasing gender equality, the Bank guarantees its employees 80% of their salary during childbirth leave. The Bank also offers a temporary adaptation period when employees return from childbirth leave.

Financial health

Íslandsbanki prioritises strengthening its customers' financial health. The Bank wants to build financial knowledge among its customers and the general public, so as to enable its customers to take responsibility for their own finances and enhance their security and financial freedom.

Educational information

Íslandsbanki provided a range of educational offerings on financial matters during the year, through events, written articles, and informational outreach on social media. In all, more than 3,500 guests benefited from 62 events or offerings held by the Bank. Among the topics covered were cybersecurity, the housing market, childbirth leave, the equity market, tourism, the fishing industry, and pensions.

The Bank also held a financial workshop for Icelanders who have recently moved to the country, and launched a digital lecture series, **Wednesday cup**, with a focus on innovation and companies.

A summary of articles by staff members and the Bank's Research Department was published on social media and distributed as widely as possible.

Financial education (in Icelandic)

Word Bank

On Icelandic Language Day, we launched our **Word Bank**, where users can find explanations of various financial terms and concepts. The idea behind the Word Bank is to bolster financial literacy and help people to understand all of the terms and phrases used in the banking industry. Users can also send in terms for which they want definitions, thereby further expanding their financial literacy.

Word Bank (in Icelandic)

Kids' Bank

The Bank introduced a new piggy bank during the year, this one made of aluminium, which is more environment-friendly than its plastic and cardboard predecessors. In addition, all children who made deposits to their long-term Framtíðarreikningur account received books from the series Little People, Big Dreams, through which the Bank aims to encourage children to read about positive role models. **Kids' Bank** also held a lively holiday event with musical and theatrical performances at the Nordurturn branch and in Akureyri.



Internal and external innovation

Íslandsbanki is committed to fostering innovation in Iceland, and the UN Sustainable Development Goal (SDGs) #9 – Industry, Innovation, and Infrastructure – is one of the four goals the Bank has chosen to support in various ways.

Employee Innovation Day

During the year, the Bank's Employee Innovation Day was rebooted under the name **Brainwave**. The aim was to encourage employees to innovate, activate their inner pioneer, shake up their daily routine, and work on new and exciting projects. Brainwave was held in September 2023. The event was structured so that employees could submit their ideas and request to develop them further, either independently or with others. All ideas were considered, whether they were directly linked to the Bank's activities or not. Over 40 ideas were submitted, and 14 of them were developed further. Groups were granted just over 24 hours to orchestrate their idea and present it to colleagues, and at the end the best ideas were selected by vote.

One idea from Brainwave, Your Voice, has already been put into use. **Your Voice** is an idea bank to which customers and employees can send suggestions or ideas for better service or new technology. The objective of the idea bank is to foster better dialogue with customers and boost democratic participation, where users can choose the ideas they consider most appealing and thereby help the Bank to prioritise product development-related tasks. In doing this, we enhance transparency, meet customers' needs, and contribute to greater creativity year-round.

Your Voice (in Icelandic)

Allocations from the Entrepreneurship Fund

The Bank's largest contribution in this area is the grants it allocates from the Íslandsbanki Entrepreneurship Fund. The aim of the Fund is to encourage innovation and development and to support entrepreneurial projects that promote the UN SDGs on which the Bank focuses: Quality Education; Gender Equality; Industry, innovation, and Infrastructure; and Climate Action. Since its inception, the Fund has awarded ISK 215 million in grants to a wide range of projects. The number of applications increased markedly year-on-year, from 90 in 2022 to 132 in 2023. The projects are run by various teams from regional Iceland and greater Reykjavík, with 27% led by women only, 15% by men only, and 58% by mixed groups. In 2023, grants totalling ISK 50m were allocated to 14 projects.



Companies that received grants in 2023

Arterna Biosciences
AskStudy
CircleFeed
Ecosophy
FráBæ
Inn í söguna – History up close
Kozmoz
Kaffibrennslan í Skagafirði
Nanna Lin
Polykite Game
Rúststeinar
Souldis
Stafræn íslensk nýsköpunargátt
Öryggiskrossinn – The Safety Kross

Further descriptions of the projects



Information security and defence against cyberattacks

Íslandsbanki prioritises digital development and use of information technology (IT). Increased use of IT can have both positive and negative effects on the Bank's customers. Digital development enhances efficiency and can expedite and simplify the provision of service, but it can also expose the Bank and its customers to fraud and cyberattacks. The Bank's Operational and Security Committee works under the auspices of the CEO. Its role is to analyse matters relating to operations, systems, and security, as well as the health of information systems.

Information security

Customers' security is exceedingly important to the Bank. Information security entails protecting information from unauthorised access, editing, deletion, or damage.

In order to ensure customers' security, the Bank has an information security management system that has been certified according to information security standard ISO27001:2013 since 2016. The Bank's compliance with the standard is assessed annually by KPMG in Finland. The ISO 27001 certification indicates that Íslandsbanki has verifiably set up, executed, maintained, and updated its management system for information security in a responsible and reliable manner. This also means that the Bank has taken account of potential threats and weaknesses, as well as the impact they have on information that it possesses or handles, and has selected and applied the appropriate measures to protect that information.

Cybersecurity

Instances of fraud and attempted fraud have grown much more common in Iceland in recent years. Organised fraud

groups have increasingly attempted to trick individuals and companies into giving them access to their online bank via e-ID authentication. Íslandsbanki was the first bank in Iceland to set up a 24-hour emergency service that customers can contact if they become victims of financial crime or fraud through either online banking or payment cards. During the year, the Bank established a new department, the Íslandsbanki Fraud Squad, whose role is to monitor, analyse, and prevent fraudulent activity. The Fraud Squad provides information to employees via weekly e-mails on the most recent developments in fraudulent activity, as well as holding courses for employees. In addition, Íslandsbanki provides educational information on fraud to its customers on the Bank's cybersecurity page. In September, it held a webinar for customers, focusing on cybersecurity, cybersecurity solutions, and the latest developments in cyberfraud. Íslandsbanki participates in the cooperative organisation Nordic Finance CERT, which disseminates information on fraud and attacks to its members and reviews how members can protect against cyberattacks.

Cybersecurity

Testing and exercises

The Bank carries out regular tests on its IT systems and conducts contingency exercises, as well as performing automated and manual testing and internal appraisals to ensure security. All software coding is reviewed and tested automatically and manually before it is put into use. The Bank's operating environment is divided into development, testing, receipt, and operations, so as to ensure separation and prevent incidents relating to the development and launch of computer systems. Risk assessments are used to control risk and ensure that the same incident cannot affect the Bank's operating environment. Competent parties are engaged to attack the Bank's computer systems and search for loopholes from within and without. Such tests may take several months to complete. Several times a year, the Bank's cybersecurity team conducts contingency exercises focusing on all types of cyberthreats. At least once a year, the Bank's emergency management team carries out exercises centring on major shocks such as ransomware attacks and data leaks. The Bank is designated as systemically important and, as such, is subject to stringent requirements that it must satisfy in order to guarantee the security of the assets it holds in custody.



Cooperation and dialogue with customers

Sustainability comes up more and more often in dialogue with representatives from the Bank's corporate customers, and interest in sustainable financing options has grown. In line with this trend, Íslandsbanki has strengthened its educational material on sustainability as it applies to various sectors, including by publishing sectoral guidelines and holding events on sustainable operations.

Sustainable financing and financial incentives

The transition to carbon neutrality demands substantial investment that creates opportunities for banks to meet their customers' financing needs. The Bank is determined to create positive incentives to expedite investment in the transition needed to combat climate change. The possibility of providing such incentives comes from more favourable financing terms offered to the Bank for sustainable bond issues and from robust management of sustainability risk, which can affect credit risk. This enables the Bank to offer more favourable interest rates to sustainable projects undertaken by its customers.

Sustainable financing for companies

Sustainability training and education

At the beginning of the year Íslandsbanki published sectoral guidelines for the *Manufacturing, Retail Trade, and Services sector*. It was the fourth set of sustainability guidelines issued by the Bank. Sectoral guidelines are conceived as a tool to provide firms with a better overview of the sustainability-related risks and opportunities in their industry. Exposure to risks varies from one sector to another, and the guidelines contain customised advice on risk management. The Bank hopes that the guidelines will create a shared foundation for Íslandsbanki, its customers, and other stakeholders to engage in further dialogue on sustainability. Íslandsbanki has also published detailed educational material on sustainable operations on its website.

Sector guidelines (in Icelandic)



Updated ESG risk assessment and management of sustainability risk

By the end of 2023, 93%¹ of all credit risk had undergone an ESG risk assessment. For the year, the Bank set the ambitious target of capturing 100% of the risks to be assessed. It looks as though the target will be met by the end of Q1 2024. The process has provided a better overview of where in the loan portfolio the key sustainability-related risks lie. The Bank is committed to taking account of ESG criteria when assessing risk and determining the pricing of its loans.

The ESG assessment and related guidelines were updated during the year, and employees received information and training in performing the assessment. The update proceeded smoothly, and a number of employees conducted assessments using a new and improved method. A steadily growing group of customers are paying close attention to these issues, and they welcome the dialogue with the Bank. The positive foundation for discussion of sustainability gives rise to learning and knowledge that is useful to both parties.

Pillar 3 Report 2023

¹ Excluding individuals and small enterprises, which are out of scope

Governance 2023

Sustainability
Statement 2023

Strategy and policies

Auditor's Limited
Assurance Report

G1 Board diversity

43%

Total **board seats** occupied by women

67%

Committee chairs occupied by women

G4 Collective bargaining

Share of total enterprise head-
count covered by collective
bargaining agreements

100%

G7 Data privacy

Does your company follow a data privacy policy?

The Bank's Data Privacy Policy is comprehensive and available online. Data privacy is an important component to Íslandsbanki's operations and the Bank takes these responsibilities seriously.

Has your company taken steps to comply with
GDPR rules?

G10 External assurance

Are your sustainability disclosures assured or
validated by a third party?

Íslandsbanki's Sustainability Statement was done in collaboration with Klappir. The auditing firm Deloitte was engaged to review and confirm the Bank's sustainability information disclosure for 2023.

G2 Board independence

Does the company prohibit the CEO from
serving as board chair?

In accordance with the Act on limited companies No. 2/1995 and the companies Articles of association the CEO of the company cannot serve as board chair.

100%

Total board seats occupied by independents

G5 Supplier code of conduct

Are your vendors or suppliers required to
follow a code of conduct?

If yes, what percentage of your
suppliers have formally certified
their compliance with the code?

77%

G8 Sustainability reporting

Does your company publish a sustainability
report?

Íslandsbanki publishes an integrated Annual and Sustainability Report each year.

Is sustainability data included in your regulatory
filings?

Other governance factors selected based on sector and internal materiality assessment

Has the company examined ESG risk in connection
with unlikely major occurrences?

Yes, as part of internal stress tests.

Has the company examined long-term risk in
connection with ESG factors?

For further information, see the Pillar 3 Report for 2023.

Does the company enforce a competition law plan?

G3 Incentivised pay

Are executives formally incentivised to perform
on sustainability?

According to Article 8 of the Bank's employment terms policy, the Bank does not authorise bonus payments.

G6 Ethics & anti-corruption

Does your company follow an ethics and/or an-
ti-corruption policy?

Íslandsbanki has established a Code of Conduct for its employees and the Bank's Sustainability Policy also addressed ethics and anti-corruption. The Bank furthermore has a policy against money laundering and other corruption.

If yes, what percentage of your
workforce has formally certified its
compliance with the policy?

99%

G9 Disclosure practices

Does your company provide sustainability data
to sustainability reporting frameworks?

Íslandsbanki provides information on its sustainability activities to CDP, the UN Global Compact and UN Environmental Programme - Financial Initiative.

Does your company focus on specific UN
Sustainable Development Goals (SDGs)?

Íslandsbanki places special emphasis on four of the UN's Sustainable Development Goals: # 4 education for all, # 5 gender equality, # 9 innovation and infrastructure, # 13 climate action.

Does your company set targets and report
progress on the UN SDGs?

Íslandsbanki has published sustainability goals for 2025 with special emphasis on four of the UN SDGs.

Does the company enforce a policy on conflicts of
interests?

Does the company enforce a policy on handling of
complaints?

What obligations or accords has the company
undertaken in connection with ESG issues?

UN Global Compact, UN Principles for Responsible Banking, CPP, NZBA, TCFD, PCAF, UN Principles for Responsible Investments (Iceland Funds), Nordic CEOs for a Sustainable Future, CFO Taskforce for the SDGs, Festa - Center for Sustainability, Iceland SIF.

Sound governance

Íslandsbanki's Board of Directors has resolved to adhere to exemplary corporate governance practices that are consistent with applicable regulatory provisions, internationally recognised criteria, and best practice in corporate governance.

Guidelines on Corporate Governance

Íslandsbanki's governance practices are in compliance with the Guidelines on Corporate Governance, and each year the Bank conducts an appraisal to ensure that they remain consistent with the Guidelines. The Bank's governance practices are described more fully in its Corporate Governance Statement.

Corporate Governance

Policy on conflicts of interests

During the year, the Board revised the Bank's policy on conflicts of interests. The Bank stresses strongly that all of its employees be aware of the risk of conflicts of interests in their work, and take appropriate action to prevent or address conflicts of interests in Bank operations.

Policy on conflicts of interests

Code of Conduct

Íslandsbanki's Code of Conduct are intended to promote sound governance practices within the Bank and to support the regulatory framework applying to its activities. They contain important guidelines for employees, including on risk culture, personal data protection, and notifications of misconduct.

Code of Conduct

Anti-money laundering and terrorist financing measures

Measures to combat money laundering and terrorist financing are an important facet of Íslandsbanki's operations, and the Bank is committed to ensuring that neither it nor its products will be used to launder money or finance acts of terrorism. Strong protection against money laundering is based on effective interactions between monitoring by employees and system-based monitoring, as well as on sound governance. In addition to the Bank's anti-money laundering and terrorist financing policy, employees work according to procedures designed to reduce the risk of such activity, and all employees receive training and education on the topic at least once a year.

Competition law plan

During the year, the Board of Directors updated the competition law plan for the Bank and its subsidiaries. It is the Bank's policy to engage in active competition in the markets where it operates, and to ensure that its activities fulfil the obligations that follow from competition legislation at all times.

Competition law plan (in Icelandic)



Sustainability-related governance structure

Clearly defined sustainability-related roles and responsibilities for managers ensure regular follow-up and strengthen the Bank's capacity to respond to challenges and opportunities associated with sustainability.

Auditor's Limited Assurance Report

Roles of the Board and Executive Committee

The Board of Íslandsbanki approves the Bank's sustainability policy and targets, and determines the Bank's sustainability-related risk appetite. The Board Corporate Governance and Human Resources Committee, a sub-committee of the Board, assists the Board in monitoring, discussing, and executing the sustainability policy. This includes implementing the Sustainable Financing Framework and formulating sustainability targets, as well as monitoring compliance with the policy and making recommendations to the Board on improvements as needed. The Board is updated regularly on the sustainability situation, and key sustainability metrics are a part of its monthly risk dashboard.

The CEO is the owner of the sustainability policy, but the Executive Committee is responsible for the implementation of sustainability targets and for ensuring that the relevant rules and procedures within their departments are in compliance with the policy.

Sustainability Committee

The Sustainability Committee is the Bank's official forum for scrutiny and discussion of issues pertaining to sustainability risk (including ESG risk), sustainable purchasing, and business opportunities. The Committee has the role of monitoring the use of the Bank's Sustainable Financing Framework and providing opinions on sustainability targets and related action plans.

Members of the Sustainability Committee are the CEO (who serves as chair), the head of Strategy and Sustainability, and representatives from business units. The Committee is kept abreast of progress made on all of the Bank's sustainability targets at least quarterly, and it gives particular attention to measures to be taken when targets are not met. In most instances, an action plan is launched in order to expedite progress, but in a few instances, external conditions have required that the targets be revised.

Transparency

Íslandsbanki has focused on transparency in its sustainability-related information disclosures. It has benefited from having undertaken this work over the years, now that new regulatory instruments have taken effect or are pending. The carbon footprint from the Bank's loan portfolio for 2019 through 2023 has been published, in accordance with PCAF methodology. In addition, the Bank's subsidiary Iceland Funds was the first fund management company in Iceland to publish the financed emissions of its assets under management.

Furthermore, Íslandsbanki has published its climate targets for 2030 in accordance with NZBA methodology, submitted measurements of the carbon footprint from the Bank's operations and loan portfolio to the Climate Disclosure Project, the world's largest database of companies' environmental impact, and provided reporting in accordance with the UN Principles for Responsible Banking (PRB). Both last year and this year, all of the sustainability disclosures in the Bank's Annual Report and Sustainability Report have been reviewed and provisionally ratified by Deloitte.



Employee participation and sustainability culture

Employee participation is key to achieving the Bank's sustainability objectives and creating a corporate culture that supports the process.

Education and awareness

The Bank's educational offerings during the year were varied but also more specialised than before. An open meeting with UN Global Compact was held for the entire staff, while other offerings were designated for closed groups. Workshops were held in various departments and the impact of forthcoming legislation on the departments' activities was discussed. Furthermore, general sustainability training was held for Personal Banking employees at morning meetings.

Several educational meetings were held on the updated framework for the ESG risk assessment of customers, and customer relations managers and loan officers received training in conducting the assessment.

Giving a Helping Hand

For over 10 years, Íslandsbanki has encouraged its employees to contribute to charitable causes. Employees can dedicate one workday per year to a good cause under the Bank's Helping Hand programme. During the year, employees donated over 600 hours of work to these causes.

The projects are quite varied, from afforestation to shoreline clean-up with the Blue Army to doing beadwork to benefit Kraftur, an NGO that supports young adults with cancer.

Helping Hand

Many departments of the Bank have consistently supported the same cause or non-profit organisation for years; for instance, since 2016, a group of staff members has been participating in Christmas cleaning and decorations at the cancer survivors' association Ljósið every Advent.

Social grants and a record-breaking Reykjavík Marathon

A range of organisations received grants from the Bank during the year, including the *Alzheimer's Association*, *Unique Children*, and the *Pieta Association*. Causes were selected on **Íslandsbanki's Charity Day**, when employees were offered the chance to collect donations for causes of their own choice by performing a range of feats such as participating in an arm wrestling competition.

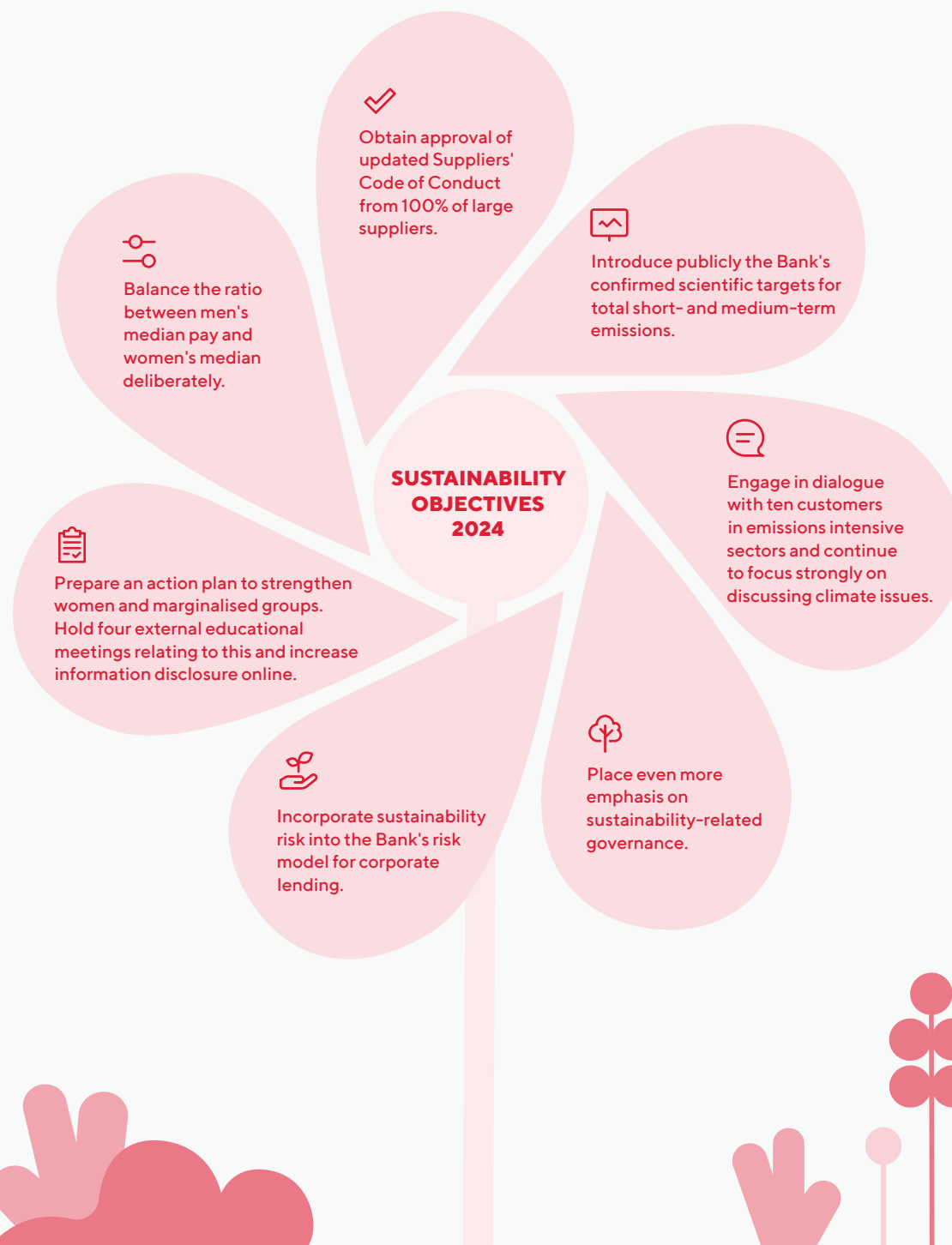
The Reykjavík Marathon had a record year, with pledges totalling nearly ISK 200 million, well above the previous record of ISK 167 million, set in 2019. The pledges are donated to the 175 charitable organisations listed as beneficiaries of the race. Íslandsbanki is also the primary sponsor of the Reykjavík

Marathon, the biggest charity donation drive in Iceland. Íslandsbanki covers all of the cost of the Hlaupastyrkur website and the collection of pledges, which revert in full to the beneficiary organisations. A total of 11,300 runners from 84 countries participated in the run. It was the first time three gender categories were included in race registration.



Sustainability targets further ahead

Íslandsbanki's sustainability objectives are approved by the Board and have a clear link to the UN SDGs, as well as complying with other international benchmarks. In accordance with the Bank's preliminary double materiality assessment, emphasis has been placed on climate change, consumers and end-users, as well as gender equality, which were spotlighted in the Bank's previous impact analysis. These are the areas where Bank is considered to have the greatest opportunity to be a force for good.





Economic review



Economic review

The Icelandic economy shifted gears in 2023, after a spate of strong growth driven mainly by domestic demand. There are signs of a temporary contraction in private consumption and investment, while at the same time, the current account balance has firmed up and there are fewer indicators of tension in the housing and labour markets. The outlook is for modest growth in the Icelandic economy in 2024. Growth will presumably be export-driven early on, with domestic demand gaining steam as the year progresses, in tandem with declining inflation and a slight drop in interest rates.

2023

After surging in 2021-2022, GDP growth started to lose steam in 2023, plunging from 7.0% in Q1 to 1.1% in Q3. In Q3, domestic demand contracted as well, the first year-on-year downturn since the pandemic year 2020. Growth during the quarter was due almost entirely to stronger services exports and a contraction in imports.

GDP growth measured a little over 4% in the first nine months of the year. It appears to have been weak in Q4/2023 and its composition broadly as in Q3. Output growth in 2023 as a whole is estimated at 3%.

Private consumption growth measured around 1% in 2023, its weakest since the onset of the pandemic. Sluggish growth in private consumption is due in part to weak real wage growth, the effects of a higher policy rate, worsening consumer expectations about the economy, and the depletion of a large share of pandemic-era savings.

After a two-year period of strong growth, investment appears to have shrunk in volume terms in 2023. The contraction measured a full 1 percentage point over the first nine months of the year, and indicators imply a contraction in Q4 as well.

This is due not least to rising interest rates, plus increased consolidation in public sector operations after the fiscal hefty deficits of the pandemic era.

Current account back in balance after a two-year deficit

The goods account deficit and the services account surplus pulled against one another last year. Imports and exports of goods shrank as the year advanced, reflecting subsiding demand pressures in the economy.

Tourism grew unabated throughout 2023, late-year earthquakes and imminent eruptions notwithstanding. More than 2.2 million tourists came to Iceland via Keflavik Airport during the year, making 2023 the second-strongest year on record. Other services exports grew markedly as well.

The goods account deficit totalled ISK 394 billion in 2023, some ISK 93 billion more in 2022. The larger deficit is due almost entirely to reduced goods export values, particularly in key sectors such as fishing and aluminium processing. Goods imports were virtually unchanged between years, however, owing to stronger imports of investment inputs, transport equipment, and food and beverages, on the one hand, and an offsetting



contraction in imports of commodities and operational supplies such as fossil fuels and related goods, on the other.

The pivot from rapid growth to a contraction in domestic demand 2023 can be seen in an improvement in the current account balance. After two deficit years, the current account showed a narrow surplus in the first three quarters of 2023, whereas for the year as a whole it was probably more or less in balance.

Labour market tension easing

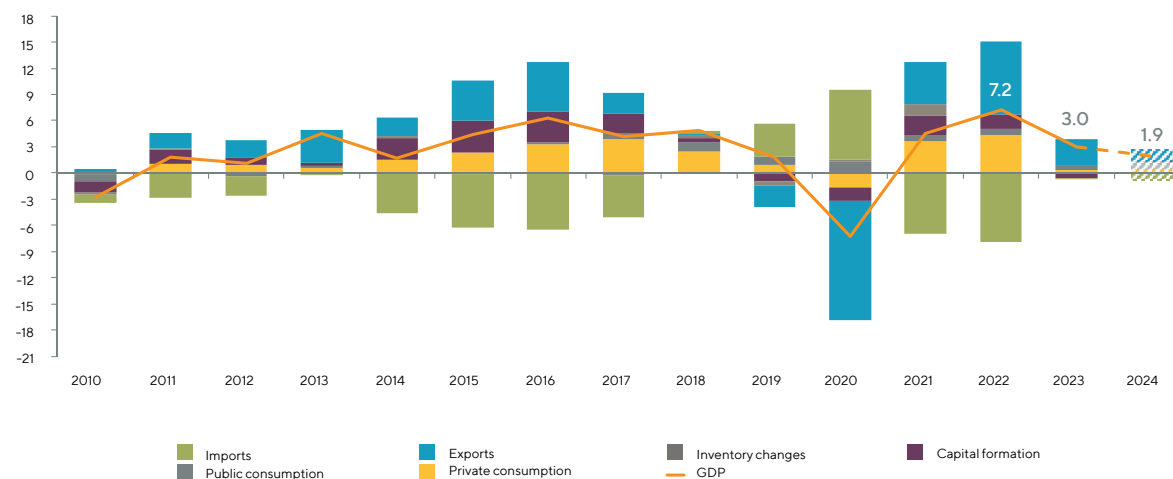
The labour market has been quite tight in the recent term, and unemployment has fallen rapidly. Demand for labour has been met to a large extent with foreign workers, who account for 23% of the labour market and are the main source of the recent population boom. Iceland's population increased by over 3% in 2023, which is broadly the same as in 2022 and an extremely strong growth rate in historical terms.

In 2023, unemployment measured 3.2%, its lowest since 2018. Wages rose in nominal terms by an average of 9.5% in 2023, and real wages grew by 0.7% despite high inflation. Pay rises were proportionally largest among lower-paid workers, as the wage agreements then in effect provided for a combination of unit-based and percentage-based increases.

Persistent inflation and rising interest rates were the hallmarks of 2023

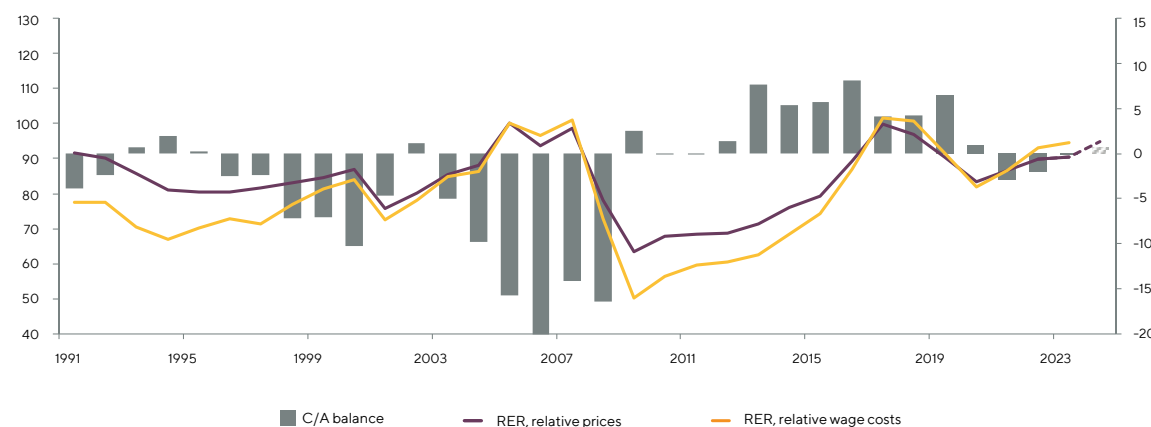
The ISK exchange rate fluctuated widely in 2023. After rising strongly over the first eight months of the year, it tumbled from early September until the latter half of November. From then until the turn of the year it rallied somewhat and, in trade-weighted terms, was slightly stronger at the end of 2023 than at the beginning.

GDP and contribution of its subcomponents
Volume change from prior year (%)



Shaded columns and broken lines: Íslandsbanki Research forecast / Source: Statistics Iceland

Real exchange rate and current account balance
Index and share of GDP



Shaded columns and broken lines: Íslandsbanki Research forecast / Source: Central Bank of Iceland

Intrayear exchange rate movements probably stem from trade-related flows, financial flows, and changes in positions with the ISK.

The effects of interest rate hikes have come clearly to the fore in the housing market, and market conditions changed rapidly after the Central Bank started raising rates in mid-2022. House price inflation peaked at about 25% year-on-year in summer 2022 and had eased to 18% by the beginning of 2023. For 2023 as a whole, however, it only measured just over 4%.

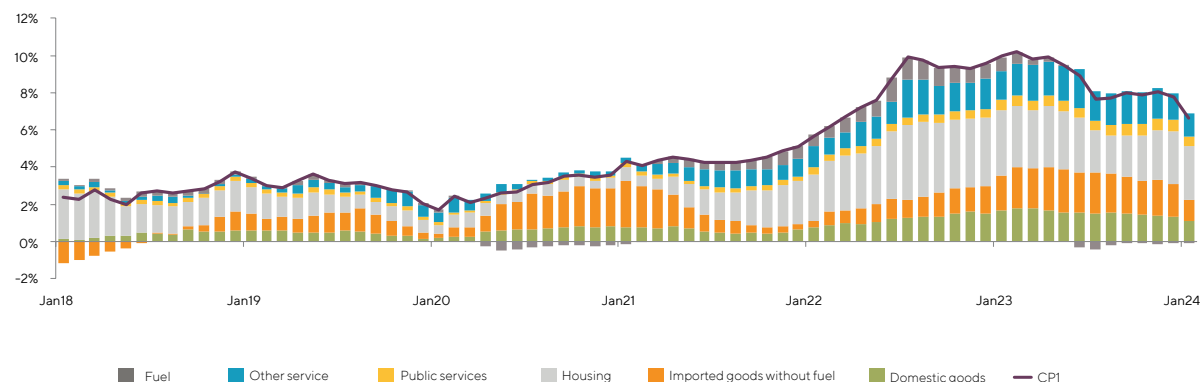
Inflation proved stubborn in 2023, peaking at more than 10% early in the year and easing to 7.7% by the year-end. The disinflation process has taken longer than previously hoped, however, and the Central Bank's inflation target is still far off. Headline inflation averaged 8.7% in 2023.

The Central Bank responded to persistent inflation with steep interest rate hikes, raising the policy rate from 6.0% in January to 9.25% by the end of August but then keeping it unchanged for the remainder of the year. The tighter monetary stance can be seen clearly in developments in the real rate, which was generally low at the beginning of 2023 but had risen markedly by the year-end.

Modest GDP growth and declining inflation expected in 2024

The outlook is for GDP growth to measure 1.9% in 2024. This is weak in historical context, and the year actually marks a turning point in the business cycle, although a year-on-year contraction is not in the cards. Intrayear developments will probably mirror those in 2023, with exports the main driver of output growth early in 2024 and consumption and investment to gain momentum later in the year.

Inflation, by source (%)



Source: Statistics Iceland

The tourism industry looks set to keep growing in 2024. Leading indicators such as airport gate allocations and bookings suggest that this year will set a new record for tourist arrivals, although the effects of the seismic activity in the Reykjanes area could make a dent in the numbers. In all, we expect over 2.4 million tourist arrivals this year. Furthermore, the outlook is for export growth in various other services sectors that are based mainly on brainpower and specialised expertise. However, there will be probably a marginal contraction in goods exports because of energy rationing to aluminium smelters and a weak capelin fishing season.

High interest rates, weak real wage growth, a marginal rise in unemployment, and other factors will push private

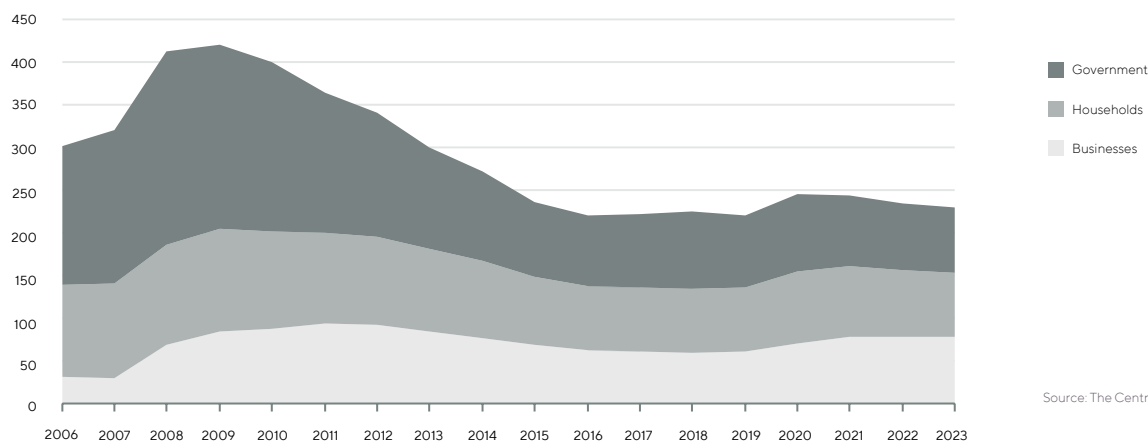
consumption growth downwards relative to recent years. The outlook is for private consumption to grow by 1.0% in 2024. Investment is set to hold all but unchanged year-on-year, as financing is expensive at present. Residential and public investment are expected to grow modestly and business investment to contract. Wages are likely to rise more slowly in 2024 than in 2023, although there is considerable uncertainty about the outcome of the ongoing wage negotiations. For this year, wages are expected to rise by an average of 6.5%, which would deliver real wage gains of about 1.2%. Weaker demand pressures in the labour market are likely to push the employment level slightly higher than in the recent term, and the unemployment rate could average just under 4%.

The outlook is for a modest appreciation of the ISK in 2024, driven mainly by more favourable external trade than in recent years, a wide interest rate differential with abroad, and an increase in institutional investors' interest in domestic securities. This will be offset by foreign investments undertaken by the pension funds and other domestic entities. The ISK exchange rate looks set to be an average of 2% stronger in 2024 than in 2023.

Inflation will probably fall fairly quickly in coming months, mainly because imported inflation and house price inflation are both lower than before. Headline inflation could average 5.0% at mid-year. The main near-term uncertainties are house prices and the ISK exchange rate, which must remain stable if these assumptions are to hold. Further ahead, the results of wage negotiations will be a major factor in inflation developments. Disinflation and waning demand pressures enhance the likelihood that the Central Bank's monetary tightening episode is over and that the policy rate will be held unchanged at 9.25% until the spring. If inflation falls and demand pressures in the economy subside as the Bank has forecast, monetary easing could begin this spring. It will start gradually, though, and the policy rate will remain high in coming quarters. The outlook is for the policy rate to be around 8% at end of the year 2024.

The year 2024 marks something of an economic turnaround after a short but steep growth spurt, and the GDP growth rate could pick up again in the next few years.

Household, corporate, and public debt
% of GDP



Source: The Central Bank of Iceland





Financials and funding



Financials and funding

Income statement

2023 saw steady growth in core income compared to previous year

Net interest income (NII) in the fourth quarter of 2023 amounted to ISK 11.7 billion, a reduction of 5% from the fourth quarter of 2022 when it totalled to ISK 12.3 billion, this decrease is mainly the result of higher interest rate environment and a larger balance sheet compared to 4Q22. NII in 2023 rose by 12.7% compared to 2022, from ISK 43.1 billion to ISK 48.6 billion in 2023. The average CB policy rate was 9.25% in the fourth quarter of 2023, compared to 5.9% in 4Q22. Net interest margin (NIM) on total assets was 2.9% in 4Q23 (3.1% in 4Q22) and 3.0% for the year 2023 (2.9% for 2022). Lending margin was 1.8% in 4Q23 (1.8% in 4Q22) while deposit margin was 1.9% in 4Q23 (2.1% in 4Q22).

Net fee and commission income (NFCI) reduced by 6.6% compared to 4Q22 to ISK 3.8 billion. Fees from cards and payment processing remain the largest single component of 4Q23 NFCI, with net fee and commission income from investment banking and brokerage and other fee and commission income in order of significance in the fourth quarter.

Compared to 3Q23 core income rose by 1.7% in the fourth quarter, to ISK 15.5 billion, having been ISK 15.2 billion in 3Q23. Core banking operations remain the most important part of the Bank's revenues, with NII and NFCI accounting for 95% of total operating income in 4Q23 (102% in 4Q22).



“ Results were strong in an eventful year

Íslandsbanki's 2023 operations were strong and results good. Return on equity was 11.3% for the year, which exceeds the Bank's financial target. Revenue generation was very sound with a 12% increase during the year. The cost-to-income ratio for 2023 was 41.6%, which is the same as it was for 2022. Net impairment on financial assets in 2023 was ISK 1,015 million, due to uncertainty as to seismic activity affecting the town of Grindavík. Growth in lending to customers was modest by 3%, with the high interest environment clearly playing its part in that. Deposits from customers rose by 8% and remain the biggest pillar of the Bank's funding. The Bank's bond issues

were well received and as the year drew to a close there were signs of markets abroad reaching a level of normality after turbulent 18 months. The Bank is well funded with all liquidity and capital ratios above targets and regulatory requirements. The Bank's Board will therefore propose at the Annual General Meeting that ISK 12.3 billion be paid as a dividend, which is in accordance with the Bank's dividend policy. Distribution of excess CET1 capital in the amount of ISK 10 billion through continued standard repurchase of own shares is planned throughout 2024.



Ellert Hlökkversson
Chief Financial Officer

The Bank recorded a gain of ISK 455 million in net financial income during the fourth quarter 2023 compared to a loss of ISK 899 million in 4Q22. The turnaround is largely explained by a considerable decrease in the interest rate curve and a recovering equity market in 4Q23.

Cost-to-income ratio beats target in 4Q23 – financial target achieved

The cost-to-income ratio was 42.7% in the fourth quarter of 2023, compared to 40.6% in 4Q22. This is within the Bank's guidance of the ratio being 40–45% and exceeds the Bank's target of staying below 45%.

Salaries and related expenses rose by 3.8% in 4Q23 compared to 4Q22 and were ISK 3.9 billion during the quarter. Other operating expenses rose by 11.1% compared to 4Q22, mostly due to higher inflation and investments in IT.

Net impairment on financial assets in 4Q23

The net impairment of financial assets was ISK 1,002 million in 4Q23 (4Q22: impairment of ISK 647 million). Although the Bank's direct exposure to Grindavík is limited, an impairment allowance relating to uncertainty following seismic activity affecting the town of Grindavík in the amount of ISK 1.7 billion was recognised in the fourth quarter of 2023. Otherwise, the current impairment outlook is relatively benign due to low unemployment, a stable outlook for economic growth and increasing interest rates that have not impacted the NPL ratio. The annualised cost of risk, measured as a net impairment charge as a share of loans to customers, was +33 bp in 4Q23 (+22 bp in 4Q22). For 2023 the Bank assumed normalised through-the-cycle impairment levels at 25–30bp with guidance for 2024 assuming them to be at around 25bp.

Balance Sheet

Modest lending growth and loan portfolio is well diversified and highly collateralised

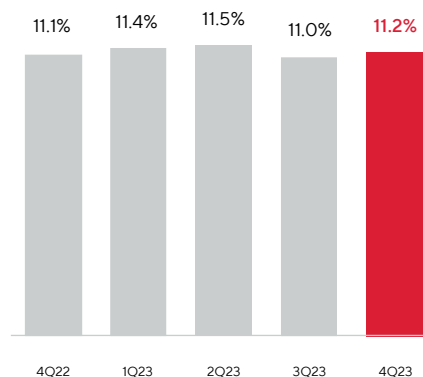
Loans to customers increased by 1.1% in the quarter and amounted to ISK 1,223 billion at the end of fourth quarter 2023. Mortgages account for 43% of loans to customers. Loans to customers are generally well covered by stable collateral, the majority of which is in residential and commercial property. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 57% at the end of 4Q23 (58% at YE22), and the LTV for the residential mortgage portfolio was 57% at the end of 4Q23 (60% at YE22).

Credit quality continues to be strong – increase in Stage 2 loans due to mortgages in the town of Grindavík

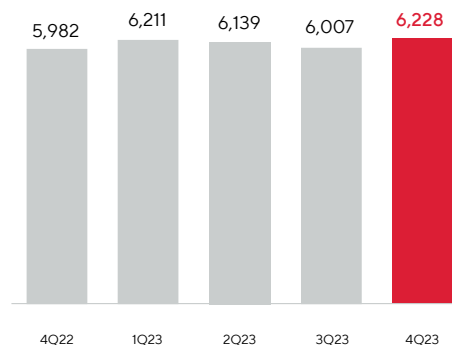
The Bank is currently not seeing an increase in delinquencies on its mortgage portfolio but recent policy rate hikes have increasingly turned customers towards CPI-linked mortgages.

At the end of 4Q23, 2.1% of the gross performing loan book (not in Stage 3) was classified as forborne, up from 1.9% at the end of 3Q23. At the end of 4Q23, the ratio of credit-impaired loans to customers, Stage 3, was 1.8% (gross) unchanged from 3Q23. For the mortgage portfolio, the ratio was 0.9% at the end of 4Q23 compared to 0.8% at the end of 3Q23.

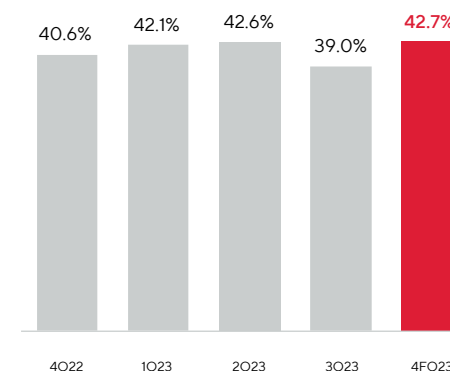
Return on equity

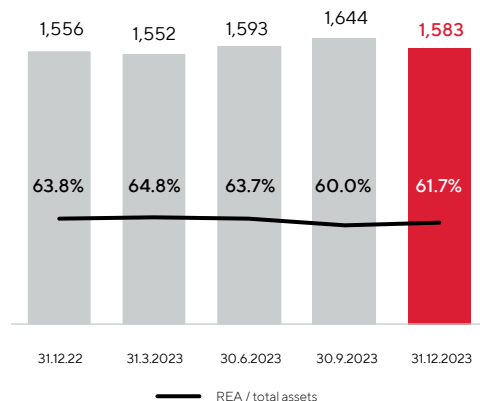


Profit after tax
(ISKm)



Cost / income ratio

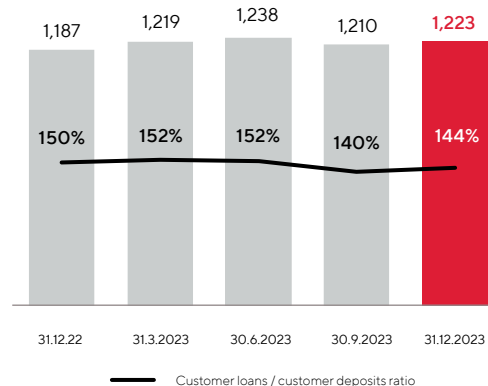


Total assets
(ISKbn)

Loans to customers in Stage 2 was 3.3% at the end of fourth quarter 2023 compared to 2.6% at the end of 3Q23. For the mortgage portfolio the ratio of loans in Stage 2 was 1.8% at the end of 4Q23 compared to 1.1% at end of 3Q23. The increase was due to transfer of loans in Grindavik from Stage 1 to Stage 2. The Bank's direct exposure to Grindavik is limited; only 0.4% of the gross carrying amount of loans to customers is covered by real estate in Grindavik.

Deposits remain the largest source of funding

Funding is mainly raised to match the Bank's lending programmes using three main funding sources: stable deposits, covered bonds and senior preferred bonds. Deposits from customer fell by 1.2% in the fourth quarter but grew in total by ISK 60.8 billion from YE22, or 7.7%. Deposit concentration remained stable. The ratio of customer loans to customer deposits was 144% at the end of 4Q23, increasing from 140% from the end of 3Q23. When excluding mortgages funded with covered bonds, the ratio was 119% for the fourth quarter, having been 111% at the end of 3Q23.

Loans to customers
(ISKbn)

As for funding activities during the fourth quarter Íslandsbanki issued an SEK 500 million senior preferred 3-year bond at a spread of STIBOR +270 basis points. The Bank also initiated a tender offer to buy back several NOK and SEK bonds maturing in 2024 to reduce excess liquidity. The tender resulted in a total volume of NOK 589 million and SEK 481 million being bought back. In December 2023 the Bank issued a senior preferred bond in the domestic market for ISK 5 billion. The Bank also sold ISK 8 billion worth of covered bonds locally while also buying back ISK 23.5 billion worth of covered bonds in the quarter.

The Bank's total liquidity coverage ratio (LCR) was 195% at year-end 2023, down from 247% at 3Q23. The reduction in LCR was mostly due to buybacks as the Bank's liquidity position remains strong across currencies. The Bank may consider further debt buybacks, calls or exchanges of outstanding transactions in the coming months, subject to market conditions.

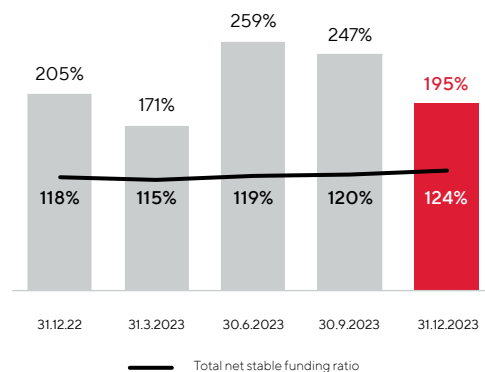
Strong capital position with ratios well above requirements

Total equity amounted to ISK 225 billion at the end of 4Q23, compared to ISK 219 billion at YE22. At the end of 4Q23, the Bank's total capital ratio was 25.3%, compared to 22.2% at YE22. The corresponding Tier 1 ratio was 22.5% at end of fourth quarter 2023, compared to 19.8% at the YE22. The CET1 ratio, was 21.4%, compared to 18.8% at YE22, (620bp above requirement), and above the Bank's financial target of having a 100-300bp capital buffer on top of regulatory requirements. The increase in countercyclical buffer from 2.0% to 2.5%, effective from March 2024, raises the overall capital requirement of the Bank from 19.8% to 20.3% assuming no other changes.

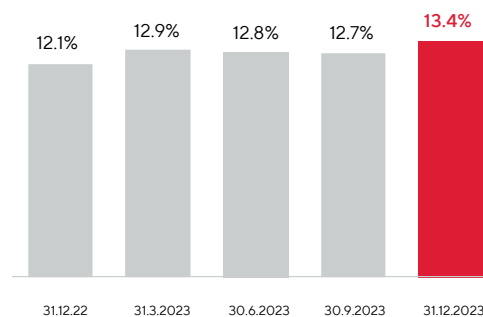
Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 977 billion at the end of 4Q23, compared to ISK 999 billion at YE22. The REA amounts to 61.7% of total assets at the end of 4Q23, compared to 63.8% at YE22. In 4Q23, the Bank reclassified its bond positions in its liquidity portfolio from trading book to non-trading book, pursuant to amendments to Article 104 in the Capital Requirements Regulation (CRR). The Bank received permission from the Central Bank to realise any resulting changes to capital requirement in accordance with the regulation. Bonds in the liquidity portfolio amounted to ISK 174 billion at the end of 3Q23 and the transfer resulted in a reduction of ISK 8.2 billion in REA. The primary goal is to align internal management of the liquidity portfolio with its investment objectives, as stipulated by the updated provisions in the CRR.

The leverage ratio was 13.4% at the end of 4Q23 and was 12.1% at year-end 2022.

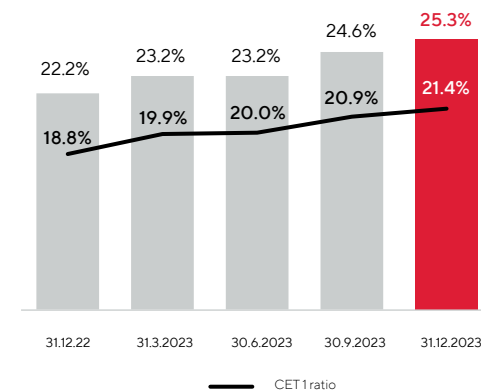
Total liquidity coverage ratio



Leverage ratio



Total capital ratio



Capital optimisation, dividend and further distribution of excess capital

A dividend payment in the amount of ISK 12.3 billion, in line with the dividend policy of paying out around 50% of preceding year's profit, will be proposed by the Board of Directors to the Annual General Meeting (AGM) to be held in March 2024.

The Bank announced during its FY22 financial results in February 2023 its plan to commence an ISK 5 billion share repurchase programme. In 2023 the Bank purchased 20,390,831 shares, equivalent to 1.02% of the issued share capital of the Bank, through standard share repurchase program. The total amount paid under the repurchase program in 2023 was ISK 1,967,631,103.

The Bank continues to explore ways to further optimise its capital structure. Distribution of excess CET1 capital in the amount of ISK 10 billion through continued repurchase of own shares, is planned throughout 2024, subject to the AGM renewing an approval to that effect. Additional capital optimisation is planned before year-end 2025, subject to market conditions.



Corporate and organisational structure



Organisational structure

The management and ultimate control over Íslandsbanki is divided among shareholders, the Board of Directors, and the CEO, in accordance with the Bank's Articles of Association and the applicable law and regulatory provisions.

Íslandsbanki Articles of Association

The Bank's Articles of Association contain provisions on, among other things, the purpose of the Bank, its share capital, shareholders' meetings, election of the Board, and the Board's duties.

Íslandsbanki Articles of Association

Shareholders

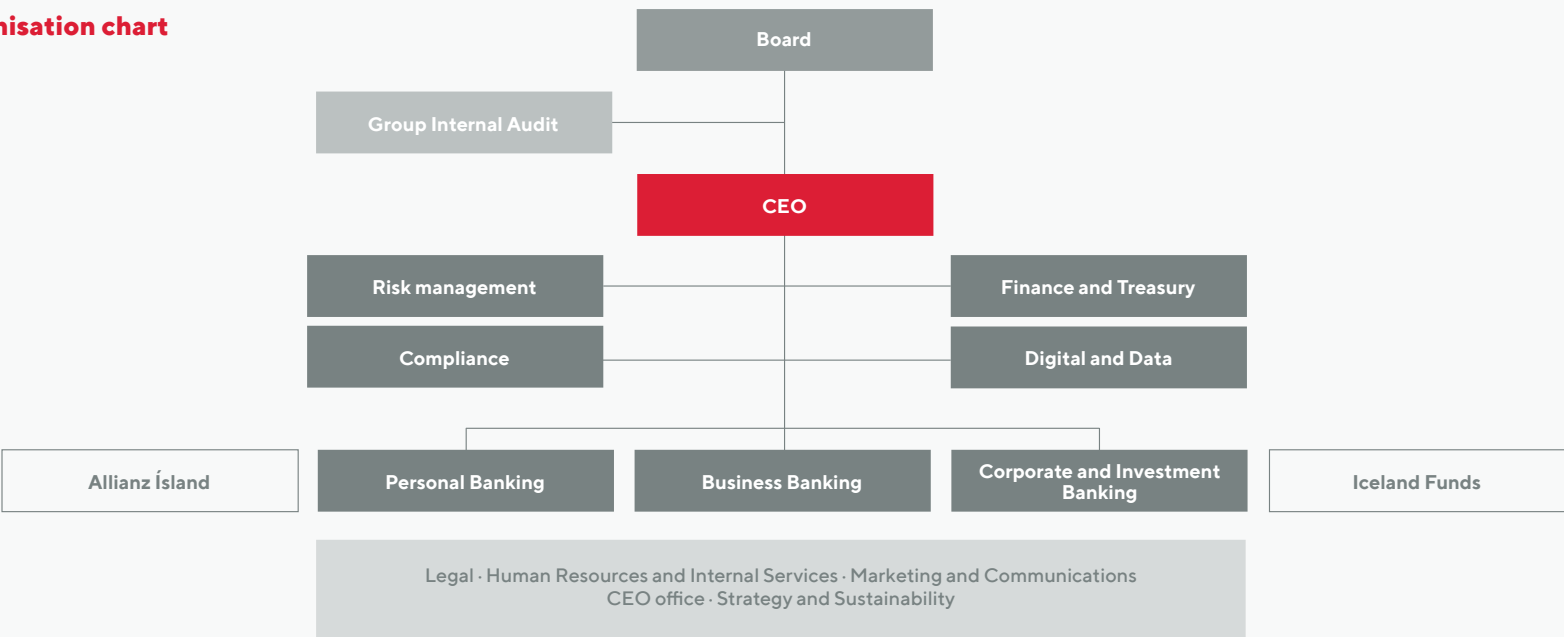
Ownership structure

The Bank publishes on its website a list of shareholders who own more than 1% of shares in the Bank.

Shares in the Bank are listed on Nasdaq Iceland. Icelandic State Financial Investments, on behalf of the Government, is the largest shareholder, with a stake of 42.9%, taking into account the Bank's own share, in accordance with the Act on Icelandic State Financial Investments, no. 88/2009, and the Government's policy on ownership of financial institutions. The Government's objective as owner is to ensure that the Bank's activities promote confidence in and credibility of the financial market, foster competition in the financial market, and maximise the risk-adjusted long-term value for the Government.



Organisation chart



Board of Directors and Board subcommittees

The Board oversees the Bank's activities and ensures that they are in compliance with the applicable regulatory provisions, sound business and governance practices, and rules adopted by the Board for the Bank's activities.

Íslandsbanki Board of Directors

The Board of Directors comprises seven non-executive members and two alternates who are elected at each Annual General Meeting for a term of one year. Further provisions on the functions of the Board can be found in the Board Rules of Procedure.

Rules of Procedure

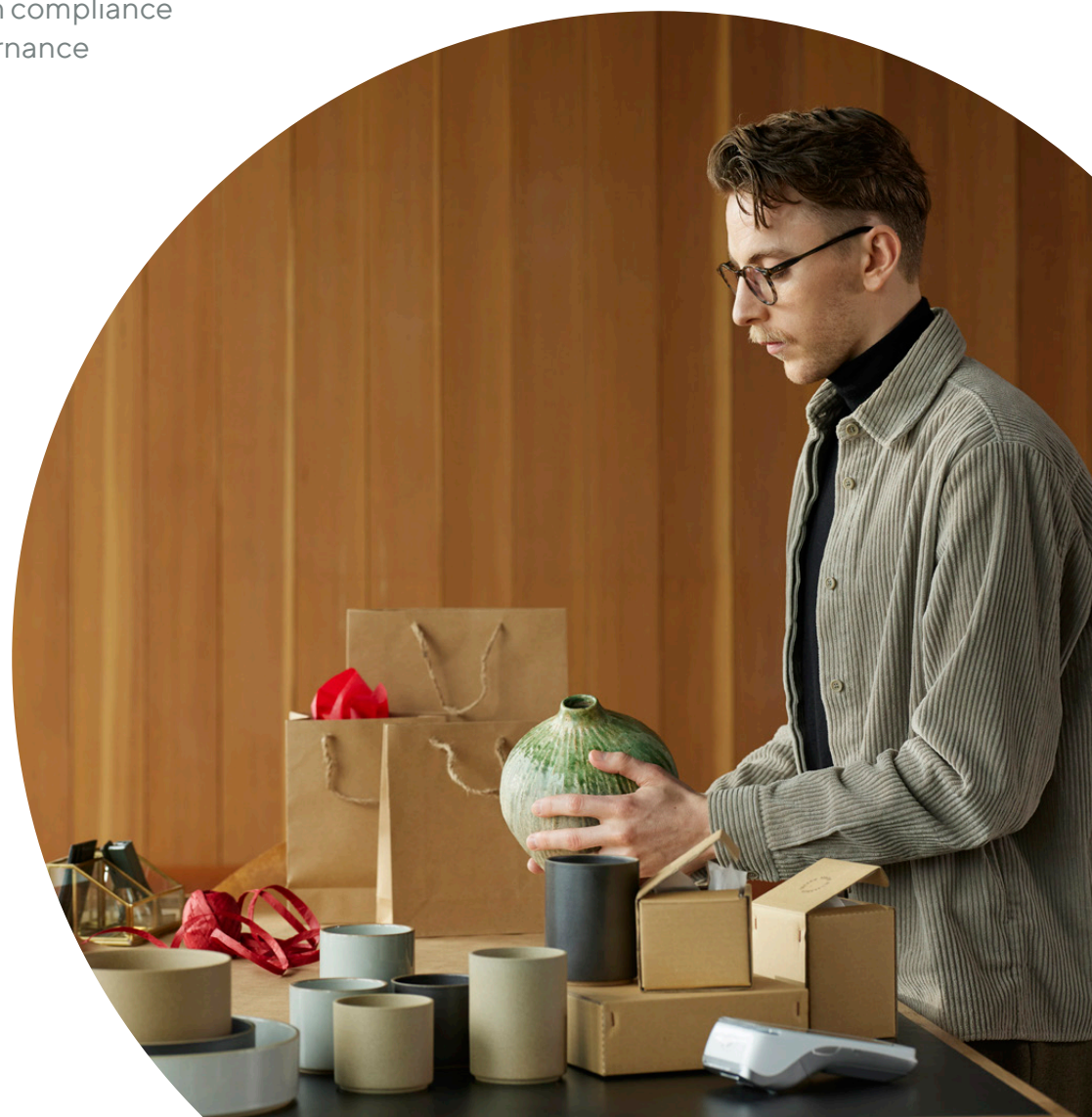
Board subcommittees

In order to support the development, execution, and supervision of Board tasks requiring additional expertise or attention, the Board appoints subcommittees that operate according to a specific Board mandate. There are three subcommittees, all comprising Board members. The committees' letters of mandate can be found on the Bank's website in Icelandic.

Risk Management Committee

Audit Committee

Corporate Governance
and Human Resource Committee



Board of Directors

[Further information](#)

Linda Jónsdóttir
Chairman of the Board
since July 2023



Agnar Tómas Möller
Joined the Board
in March 2023



Anna Þórðardóttir
Joined the Board
in April 2016



Haukur Örn Birgisson
Joined the Board
in July 2023



Helga Hlín Hákonardóttir
Joined the Board
in July 2023



Páll Grétar Steingrímsson
Joined the Board
in January 2024



Stefán Pétursson
Vice-Chairman of the Board
since July 2023

CEO and CEO's advisory committees

The CEO is responsible for ensuring that the Bank's operations and activities are at all times in compliance with the Bank's Articles of Association, its approved policies and strategies, Board directives, and the applicable regulatory instruments.

The CEO hires Managing Directors for the Bank's divisions and appoints members to serve on the CEO's advisory committees. The CEO's advisory committees fall into two categories: Policy-Setting Committees, which implement Board policies, and Business Committees, which take a position on specific business matters.

The Executive Committee and the All-Risk Committee are considered policy-setting committees, and they take major decisions on the implementation of the policies set by the Board. Committee members include all of the Bank's Managing Directors, in addition to other managers appointed by the CEO.

The Executive Committee oversees and coordinates key aspects of the Bank's activities and has decision-making authority in matters assigned to it by the CEO, in accordance with policies, goals, and risk appetite as defined by the Board.

The All-Risk Committee takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement.

The Bank's Business Committees take decisions on individual business and operational matters in accordance with policy documents, rules, and other limits approved by the Board, the Executive Committee, or the All-Risk Committee. The Bank's Business Committees are *the Senior Credit Committee, the Asset and Liability Committee, the Investment Committee, the Operational and Security Committee, the Sustainability Committee, and the Digital Products Committee.*



Executive Committee

[Further information](#)

Jón Guðni Ómarsson
Chief Executive Officer



**Barbara Inga
Albertsdóttir**
Chief Compliance
Officer



**Ellert
Hlöðversson**
Chief Financial
Officer



**Guðmundur Kristinn
Birgisson**
Chief Risk
Officer



**Kristín Hrönn
Guðmundsdóttir**
Managing Director
of Corporate and
Investment Banking



Ólöf Jónsdóttir
Managing Director
of Personal Banking



Riaan Dreyer
Managing Director
of Digital and Data



Una Steinsdóttir
Managing Director
of Business Banking

Auditor's Limited Assurance Report

To Íslandsbanki hf.

Deloitte.

Introduction

We have been engaged by the Board of Directors of Íslandsbanki hf. (the Bank) to undertake a limited assurance engagement of *selected information* in the Bank's Annual and sustainability report for the year 2023.

Assurance scope

The scope of our work was limited to providing assurance on:

- The chapter "Sustainable Íslandsbanki" as presented on pages 36 to 57 in the Bank's Annual and sustainability report for 2023. The main information in that chapter is as follows:
 - The Bank's ESG statement; environmental factors on page 43, social factors on page 47 and governance factors on page 53
 - Sustainable lending under the Sustainable Financing Framework as presented on page 41
 - Impact indicators as presented on page 42
 - The Bank's offset of CO₂ emission for 2023 as presented on page 46
 - Financed emissions, information in tables on page 44, regarding financed emissions in 2022 og 2023 as well as the carbon footprint of the loan portfolio and asset under management in 2023.
- Íslandsbanki's self-assessments/assertions of its fulfillment of its commitments as a signatory of the Principles for the Responsible Banking for the year 2023, as is presented in the Bank's Reporting and Self-Assessment Template issued by the UNEP FI.

Together: "the selected information"

Our assurance does not extend to any other information in the Annual and sustainability report.

Responsibilities of the Board of Directors and the Executive Management for the Annual and sustainability Report

The Board of Directors and the Executive Management are responsible for preparing and presenting the Annual and sustainability report, and the self-assessment of the Principles for Responsible Banking. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Annual and sustainability report, such that it is free from material misstatement, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a limited assurance conclusion on the *selected information* specified above based on the procedures we have performed and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information issued by IAASB. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Annual and sustainability reporting, and applying analytical and other limited assurance procedures, including inspection of documentation, and limited sample testing of the selected information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. The procedures performed, consequently, do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our independence and quality control

Deloitte ehf. applies ISQM 1 (International Standard on Quality Management) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Íslandsbanki in accordance with professional ethics for accountants and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Conclusion

Based on the limited assurance procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the *selected information* disclosed in the Bank's Annual and sustainability report and the PRB Reporting and Self-assessment template have not been prepared, in all material respects, in accordance with the reporting criteria.

Kópavogur, 8 February 2024

Deloitte ehf.



Geir Steindórsson

State Authorised Public Accountant

